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TEXT OF SPEECH ON CENTRAL PROVIDENT FUND BY MINISTER FOR LABOUR AND COMMUNICATIONS AT THE PASIR PANJANG C.C. FORUM ON 31 OCTOBER 1982

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1 WHAT IS THE CPF?

1.1 Before 1955 there were no national savings schemes for workers. Only civil servants and the employees of big business organisations had pension schemes. Most old people depended on their children, on charity or were left to fend for themselves when they became unable to work. The Central Provident Fund (CPF) was established in 1955 to rectify this situation. The Fund is a compulsory savings scheme to provide money for workers in their old age or when they become unable to work.

1.2 Under the CPF scheme, a worker and his employer contribute towards savings for the worker so that by the time the worker retires from work, he would have savings for his old age.

1.3 CPF scheme was only a savings scheme during the first thirteen years. However, since 1968 its scope has been greatly extended to help CPF members to own homes, to protect such ownership and to allow the members to invest part of their CPF savings in approved shares or properties.

1.4 As at the end of September 1982, there were 1.71 million CPF members with total savings amounting to $14.68 billion in the Fund.

2 RATE OF CONTRIBUTION

2.1 The CPF contribution rate now is 45% of the employee's wages. 23% is paid by the employee himself, and 22% by his employer. The maximum amounts of monthly contribution are $690 by the employee and $660 by the employer, making a maximum monthly total of $1,350.

... (Please see Annex A for details of current contribution rate). Of the 45% contributed, 40% is entered into the member's Ordinary Account and 5% into his Special Account in the CPF. Money in the Ordinary Account can be withdrawn for housing and other approved investments. Those in the Special Account can only be used for old age or contingencies.

2.2 The CPF contribution rate was 10% when the CPF scheme first started in 1955. This rate has been increased over the years to the 45% now. (Please

... see list of past contribution rates at Annex B).

2.3 There will be more and newer uses of CPF savings in future, such as the Medisave scheme. Therefore the CPF contribution rate is likely to increase to 50% in the future. Of this 50%, 40% will be for housing and other uses, 6% for Medisave and the remainder for old age and contingencies.

3 WHY THE HIGH CPF CONTRIBUTION RATE?

3.1 We have found it necessary to increase the CPF contribution rate over the years. The reasons are given below.

3.2 Old Age and Contingency

In 1955, employers could only pay low wages and workers had little money to spend. Therefore the CPF contribution rate could not be higher than the 10% introduced then. Since then, the standard of living of our people has improved and their incomes have also increased many times. The original rate of 10% was insufficient to provide for a worker's old age or contingencies. The CPF rate has therefore been increased as his earnings increase.

3.3 Housing

To date a total of $3.7 billion has been withdrawn for the purchase of residential properties under the various housing schemes. Without the use of CPF savings many workers could not have owned their own homes. Most of them in fact depend solely on their CPF savings to make instalment payments on their homes. Hence, with the rising cost of HDB flats and private residential properties and the general preference for the more expensive and larger flats and properties nowadays, CPF contribution rate has to be increased to ensure that workers can continue to afford homes.

3.4 Other Purposes

A higher CPF contribution rate would also ensure that members have sufficient savings to enjoy the benefits of the various schemes introduced by the

CPF Board. These include the Home Protection Insurance scheme, the SBS shares scheme, and in the near future, the Medisave scheme.

3.5 Other Benefits of a Higher CPF Contribution Rate

The reasons I have outlined above are the main reasons for increasing the CPF rate. However, the increase in CPF contributions has also benefitted the economy of Singapore tremendously.

(i) Curb Against Inflation

During the past two decades, wages have increased as Singapore's economy progressed. The upward adjustments of wages were more significant during the last few years. This was to encourage workers to upgrade skills and higher technology industries to be set up in Singapore. Existing industries would also have to automate and mechanise so as to bring about higher productivity. Higher productivity in turn increases workers' wages. With rising wages, there would have been a problem of too much money chasing too few goods, thus jacking up prices of goods. Increases in the CPF contribution rate have helped to reduce the amount of available money in circulation, thus avoiding uncontrollable inflation and spiralling prices. Otherwise, workers would have to pay much more for the same amount of goods. By siphoning some excess money from the economy, Singaporeans would be able to stretch their dollar further.

(ii) Capital Formation

CPF savings form a large portion of Singapore's savings. These savings are used for capital formation which means the construction of new factories, installation of new plant and equipment, expansion of infrastructure such as roads, ports and telecommunications, the building of houses and so on. These facilities coupled with Singapore's economic and political stability have in turn attracted large amounts of investments each year. These again go into the setting up of more businesses, factories and enterprises. All these mean economic progress, more jobs, higher wages, better housing and recreational amenities and improved quality of life for the Singaporean worker. Without savings and capital formation, the opposite situation would arise. The economy would stagnate and Singaporeans would become poorer and poorer as the population grows and unemployment increases.

(iii) Contribution to Successful Housing

Singapore stands out as one of the few

countries which have successfully broken the back of their housing problem. Our public housing programme would not have been possible on the scale achieved if not for CPF savings. 69% of Singaporeans are decently housed in HDB estates. Further, accumulated CPF savings have allowed large numbers of Singaporeans to own their houses. About 64% of the families living in HDB estates are proud home-owners. However, many of them would not have been able to afford these flats if not for the low cost of HDB flats and the cheap housing loans provided by HDB at 6¼% per annum.

HDB has been able to keep such costs low mainly because it borrows from the Government millions of dollars each year at only 6% per annum. Government, on the other hand, obtains its low cost funds through the issue of Government bonds; and the CPF has been a major purchaser of these bonds. As at September 1982, CPF had $14.22 billion invested in Government bonds and deposited as advance deposits with the Monetary Authority of Singapore. Of this amount, $6.81 billion had been invested in the bonds over the 5-year period up to April 1982. On the other hand, total Government loan to HDB amounted to $6.73 billion during the same period.

4 CPF INTEREST RATE

4.1 The interest rate payable to CPF members has been at 6½% per annum since 1974 (please see Annex C for CPF interest rates from 1955 to 1982).

4.2 Has CPF Paid a Fair Interest Rate?

To find out whether members have been paid a fair rate of interest, we can compare it with the inflation rate, the average 12-month deposit rate of commercial banks and the average POSB interest rate. (Please see Annex D for a comparison of these rates).

For 10 out of 23 years, the CPF was paying interest at a rate higher than or equal to the average 12-month bank deposit rate. It was as high as or higher than the POSB's rate in 25 out of 27 years. The CPF interest rate was higher than the Consumer Price Index in 12 out of 16 years.

Although it is true that in the last two years bank interest rates were higher than CPF interest rates, we must not forget that the CPF member enjoys some tax benefits.

Firstly, the employer's share of CPF contribution which is in fact additional income to the member, is not included as part of the member's income for tax purposes.

Secondly, the member's share of the CPF contribution is tax deductible.

Lastly, the interest earned by a member's CPF savings is tax exempt.

If we take these factors into consideration, the rate of return on the CPF savings would be effectively higher. In some cases, depending on which tax bracket a member is in, the effective rate of return is well above 10% per annum. It can therefore be concluded that CPF has been paying a fair interest rate over the years.

4.3 Review of CPF Interest Rate

In the last two years, there has been considerable complaints that interest rate paid on CPF savings lags far behind those paid by banks and even the POSB. Furthermore, with high inflation rates, the CPF interest rate was considered insufficient as a hedge against inflation. The Government was therefore urged to review CPF interest rates to bring it more in line with inflation and interest rates paid by banks.

To some extent, these complaints were justified.

However, from the graph at Annex E

you will see that over the last 20 years CPF interest rates had been competitive with those paid by banks and even the POSB except in the recent two or three years. This is particularly so if we bear in mind that CPF interest is not subject to tax unlike interest paid by banks with the exception of POSB. If we were to deduct tax payable on bank interests, the CPF interest rate would be even more attractive especially for those in the higher income bracket who are paying higher taxes.

The Government is considering floating CPF interest rate with bank interest rates which I shall call market rates. Of course, such a floating CPF interest rate will not be exactly the same as what the banks are paying. It will have to be slightly lower than the market rates to take into account the fact that you don't pay tax on CPF interest.

But pegging CPF interest rate to market rates will mean that in times of high demand for bank loans, market rates and CPF interest rates will rise and correspondingly in times of low demand, market rates and CPF interest rates will fall. And, this could well be lower than what CPF is now paying. At this moment, the market interest rate paid by banks are falling quite significantly. If CPF interest rate is allowed to float with market rates it could well be below the 6½% now paid. The

Government has therefore decided to hold back its decision to float CPF interest rates according to market rates for the time being.

Another point we must bear in mind in floating CPF interest rate with market rates is that a considerable amount of CPF money is borrowed by the HDB through the Government at 6% to finance the construction of HDB and HUDC flats. Furthermore, part of this money is lent out to purchasers of HDB flats at a low interest rate of 6¼% pa to help them purchase the flats. Those who buy HDB flats therefore benefit from lower CPF interest rates in the following manner:

(a) Firstly, the lower cost of CPF money used to finance the construction of HDB flats will result in lower construction cost and hence lower selling prices of flats.

(b) Secondly, a lower CPF interest rate will mean that those who borrowed money from HDB to buy HDB flats need pay a low interest rate on such loans.

If it is decided to float CPF interest rate with the market rates, when the market interest rates rise, CPF interest rate will also rise. The HDB will have to borrow CPF money at a higher interest rate. This will result in construction cost going up and hence the selling price of flats. Furthermore, interest rate on loans given by HDB to buyers will also have to go up to pay for the higher cost of CPF money. In short, raising interest rates on CPF deposits could result in higher selling price of HDB flat and also higher interest rate on loans taken from HDB. On the other hand, if market interest rates were to fall, interest rate on CPF deposits would also be lower. This will result in cheaper money being lent to HDB, cheaper construction cost and lower interest rates on loans given to HDB purchasers.

On the other hand, if the CPF continues to pay a low interest rate to reduce cost of HDB flats, it will be unfair to the higher income earners with large CPF accounts, who also do not qualify for public housing. They are in effect subsidizing the lower income group. However, the Government has remedied this inequity to some extent by allowing all CPF members to invest their CPF money in properties, which is a good hedge against inflation.

You can therefore see that there are quite serious implications in adjusting CPF interest rates. It has many ramifications and the issue needs very careful consideration before decisions are taken. Nevertheless, the Government will constantly keep review of this matter and adjust its policies accordingly.

5 HOW HAVE MEMBERS BENEFITTED?

5.1 Basis for Use of CPF Savings

CPF savings provide money for workers when they reach old age or when they become unable to work. Workers are allowed to withdraw their savings when they reach 55 years of age, become mentally or physically unable to continue working (or when they emigrate to other countries). However, since 1968, CPF members are allowed to put CPF savings to prudent use under various schemes introduced by the Board.

5.2 CPF Schemes

(i) Housing Schemes

Members are allowed to use CPF savings to purchase flats from the HDB (including former JTC and HUDC) and Mindef, and to purchase private properties under the Approved Residential Properties Scheme (ARPS). As at September 1982 $3.52 billion have been withdrawn for the purchase of flats from HDB and Mindef. The number of members involved was 379,500.

The ARPS which was introduced on 1 June 1981 has helped many members who do not qualify for HDB flats to purchase private properties. As at September 1982, $217.14 million were withdrawn by 3,570 members.

(ii) SBS Shares

Members can use up to $5,000 CPF savings to purchase SBS shares. As shareholders, they can enjoy concessionary fares from the company. As at September 1982, 44,790 members had used their CPF savings to buy 45.5 million shares of the Singapore Bus Service (1978) Ltd.

(iii) Home Protection Insurance Scheme (HPIS)

The HPIS was introduced on 1 January 1982 to insure members against outstanding loans on their HDB (including former JTC and HUDC) and Mindef flats. A member participating in the scheme can use part of his CPF savings to pay a once only premium. If the member dies or becomes permanently incapacitated, the Board will pay all outstanding housing loans on the member's flat. The scheme ensures that the member's family will not be left without a roof over their heads.

6 POSSIBLE NEW USES OF CPF

6.1 Many CPF members have often thought to themselves how wonderful it would be if they could freely use their CPF savings now instead of when they are 55 years old. They could then afford to change their furniture, take a holiday overseas or even buy a new car. They might even think that they could afford to stop work and enjoy themselves for a few months. They forget that if not for the restrictions imposed, they would not have accumulated such sizeable amounts in their CPF savings in the first place; and most Singaporeans depend on their CPF savings for their old age as they do not have much personal savings of their own.

6.2 However, the Government has always been considering new uses for CPF savings. But whatever uses the savings are put to, the Government has to bear in mind the primary objective of the CPF scheme, which is to ensure that a worker saves for his old age. Obviously, CPF savings can be used only for purposes which provide long term benefits, such as buying a home, paying for essential medical treatment and certain investments with good returns. These maintain CPF members' well being or increase the future value of their CPF savings so that they will have more security upon their retirement. CPF savings should not be spent on short term benefits because when such benefits have been enjoyed, the worker will have that much less savings left for his old age. Thus after an enjoyable family holiday, and savings spent, what remains? Perhaps only fond memories and the hard realities of a leaner future.

6.3 Two possible uses of CPF savings by members are now being looked into.

(i) Medisave

Under the National Health Plan a CPF member can use savings in his Special Account to pay for medical treatment for himself and his immediate family. Contributions for this purpose would eventually amount to 6% of the member's wages, 3% will be paid by the member and another 3% by his employer. The contributions would be credited to his Medisave Account with the CPF. With the Medisave scheme, a member can always fall back on his Medisave Account to meet expenditure on medical treatment. He and his family will get additional medical treatment not provided by his employer, or medical treatment after he has retired from working.

(ii) Dependants' Protection Insurance

A life insurance scheme for CPF members is under consideration. If introduced, this scheme would be complementary to the Home Protection Insurance scheme which has already been largely accepted by members in view of the benefits it provides. The Dependants' Protection Insurance scheme would allow members to use their CPF savings to buy life insurance from the CPF Board. The scheme would, in particular, benefit young workers who have yet to accumulate a sizeable amount of CPF savings. It would be comforting for them to know that their young families would be provided for in the event of premature death or permanent incapacity.

7 EXPECTATIONS THAT CANNOT BE MET

7.1 Payment of Taxes and Bills

Recently there have been requests to allow the use of CPF savings to pay property tax, income tax and PUB bills. Property tax and income tax are paid by responsible individuals to society as a whole. The society will then be able to afford the building of infrastructure and common facilities such as roads, public buildings and parks, and the provision of essential services such as the armed forces, police, fire brigade, hospitals and so on for the enjoyment and protection of the individuals themselves. Such taxes are already pegged on the individuals' ability to contribute. There is therefore no valid reason for CPF savings to be used to pay such taxes.

Payment of both taxes and PUB bills is consumptive in nature and does not give long term benefits. To allow CPF savings for such payment is inconsistent with the objectives of the CPF scheme. Besides, it would add to inflation as it allows more money to circulate in the economy.

7.2 Partial Withdrawal at 50

There has also been a request to allow partial withdrawal of CPF savings when a member reaches 50 years of age because it was felt that the high rate of CPF contribution would result in the member accumulating a very large amount of CPF savings. However, the high CPF rates came into being only during the last decade. Most members who will be reaching 55 years of age over the next 15 years or so, really do not have very much CPF balances in their accounts (the average balance is about $16,000). These amounts are hardly adequate for members' old age.

Also, since CPF savings are for use after retirement, the more savings there are the better the member will be provided for. Allowing withdrawal before the member reaches 55 years of age would mean he has less savings for his retirement. This again is inconsistent with the objective of the CPF scheme. Besides, with increased life expectancy, Singaporeans will need more money to enjoy a longer retirement.

Moreover, early withdrawal of CPF savings might just enourage some members to cease working after having received their CPF money. Therefore, it would not be appropriate to allow partial withdrawals at 50 years of age.

7.4 Lessons from Other Countries

Major changes to convert the CPF scheme into something like those in some countries in the West are unlikely to come about. This is because the principle that each worker should get what he has himself contributed must remain.

Some other national social security schemes (such as those in UK and USA) may appear more attractive than the CPF scheme as they provide pensions, medical benefits, unemployment benefits, and allowances to members and their families. Such schemes carry an insurance element and tend to encourage unemployment, wastage of resources and inequitable distribution of benefits. As a result, the governments are finding it difficult to maintain these schemes which require heavy government subsidies which in turn have to be very painfully borne by taxpayers.

Other schemes, such as that in Israel, depend on cross subsidies between generations. The system works as long as the number of retirees remains low. However, as the population ages, the proportion of retirees will increase and the system will break down as the young eventually cannot afford to maintain the old.

8 WHERE DO WE GO FROM HERE?

The principle that each worker should get what he has contributed will remain the main guideline in any future changes in the CPF scheme. This principle ensures a built-in mechanism whereby Singaporeans reap what they sow. The harder they work the more they will save and the more they will get. The CPF Board will continue to bring in new schemes and to review existing ones to provide better benefits to its members.

ANNEX A

THE CENTRAL PROVIDENT FUND ACT

CONTRIBUTION RATES FROM 1ST JULY 1982

)TAL AMOUNT OF EMPLOYEE'S AGES FOR THE CALENDAR)NTH (1)	CONTRIBUTION FOR THE CALENDAR MONTH PAYABLE BY THE EMPLOYER (2)	AMOUNT RECOVERABLE BY THE EMPLOYER FROM THE EMPLOYEE'S WAGES FOR THE CALENDAR MONTH (3)
ot exceeding $50	Nil	Nil
xceeding $50 but not xceeding $200	An amount equal to 22 per cent of the total amount of the employee's wages for the month.	Nil
xceeding $200 but not xceeding $363	An amount equal to the sum of - (a) 30 per cent of the total amount of the employee's wages for the month; and (b) One-third of the difference between the total amount of the employee's wages for the month and $200.	An amount equal to the sum of - (a) 8 per cent of the total amount of the employee's wages for the month; and (b) One-third of the difference between the total amount of the employee's wages for the month and $200.
Exceeding $363	An amount equal to the sum of - (a) 45 per cent of the employee's ordinary wages for the month, subject to a maximum of $1,350; and (b) 45 per cent of the amount of additional wages payable to the employee in the month.	An amount equal to the sum of - (a) 23 per cent of the employee's ordinary wages for the month, subject to a maximum of $690, and (b) 23 per cent of the amount of additional wages payable to the employee in the month.

/contd....

Notes: For the purpose of this Schedule -

(a) the whole of the contribution shown in column (2) is payable by the employer in the first instance but the employer is entitled, where applicable, to deduct from his employee's wages the amount shown in column (3) as the employee's share of the contribution;

(b) the contribution payable by the employer shall be rounded off to the nearest dollar. Where the fraction of a dollar is 50 cents it shall be regarded as an additional dollar;

(c) in deducting from the employee's wages the amount recoverable by the employer, fraction of a dollar shall be ignored;

(d) "additional wages" means any remuneration other than ordinary wages;

(e) "ordinary wages for the month" means the amount of a remuneration due or granted wholly and exclusively in respect of employment during that month and payable before the due date for the payment of contribution for that month;

(f) "total amount of the employee's wages for the calendar month" means the total amount of the employee's ordinary wages for the month and additional wages payable to him in that month.

CPF CONTRIBUTION RATES

Starting	Contribution Rates		Credited Into		Total
	By Employer	By Employee	Ordinary Account	Special Account	
Jul 1955	5%	5%	-	-	10%
Sep 1968	6½%	6½%	-	-	13%
Jan 1970	8%	8%	-	-	16%
Jan 1971	10%	10%	-	-	20%
Jul 1972	14%	10%	-	-	24%
Jul 1973	15%	11%	-	-	26%
Jul 1974	15%	15%	-	-	30%
Jul 1975	15%	15%	-	-	30%*
Jul 1977	15½%	15½%	30%	1%	31%
Jul 1978	16½%	16½%	30%	3%	33%
Jul 1979	20½%	16½%	30%	7%	37%
Jul 1980	20½%	18%	32%	6½%	38½%
Jul 1981	20½%	22%	38½%	4%	42½%
Jul 1982	22%	23%	40%	5%	45%

Note: Jul 1955 to Aug 1968) Contribution rates
Sep 1968 to Dec 1969) remained unchanged
Jul 1975 to Jun 1977)

*Maximum contribution increased from $450 to $600 per month.

CPF INTEREST RATE

Year	Interest Rate
1955	Nil
1956	2½%
1963	5%
1964	5¼%
1967	5½%
1970	5¾%
1974	6½%
1977	6½%*
1978	6½%*
1979	6½%*
1980	6½%*
1981	6½%*

*Credited Quarterly

Table

Comparative interest rates of CPF, POSB and the 12-month bank deposits for years 1955-1981

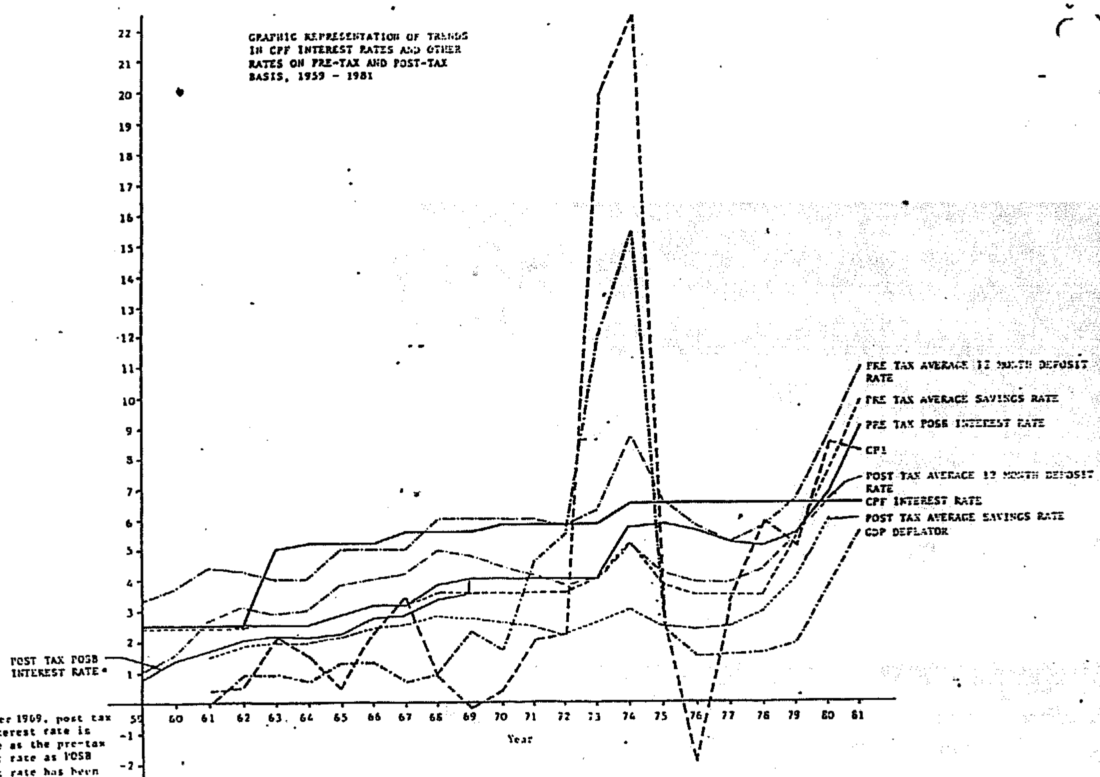
Year	CPF Interest Rate (%)	Inflation Rate (Increase in Consumer Price Index) (%)	Average 12-month deposit Rate of Commercial Banks* (%)	Average POSB Interest Rate** (%)
1955 (CPF Board inception)	2.50	NA	NA	2.50
1956	2.50	NA	NA	2.50
1957	2.50	NA	NA	2.50
1958	2.50	NA	NA	2.50
1959	2.50	NA	3.25	2.50
1960	2.50	NA	4.00	2.50
1961	2.50	0.3	5.00	2.50
1962	2.50	0.5	4.50	2.50
1963	5.00	2.2	4.00	2.50
1964	5.25	1.6	5.00	2.50
1965	5.25	0.3	5.00	2.71
1966	5.25	2.0	5.00	3.00
1967	5.50	3.3	5.17	3.00
1968	5.50	0.8	6.00	4.00
1969	5.50	-0.3	6.00	4.00
1970	5.75	0.4	6.00	4.00
1971	5.75	1.9	6.00	4.00
1972	5.75	2.1	5.75	4.00
1973	5.75	19.6	6.21	4.00
1974	6.50	22.3	7.88	4.75
1975	6.50	2.6	6.39	5.25
1976	6.50	-1.9	5.78	5.50
1977	6.50	3.2	5.33	5.08
1978	6.50	4.8	5.65	5.08
1979	6.50	4.0	6.76	5.50
1980	6.50	8.5	9.03	6.79
1981	6.50	8.2	10.86	8.9

Notes: * The rate refers to the average of the rates quoted by 10 leading banks for each year.

** For the period (1978-1980) when the POSB offered two tiers of interest rate, the higher of the two rates as at the end of each year is used.

Source: CPF

ANNEX E



*Note: After 1969, post tax POSB interest rate is the same as the pre-tax interest rate as POSB interest rate has been exempted from income tax since 1.1.69.