DBJ REPORT

Sustaining the Ageing Population
– The Central Provident Fund

July 2004
Development Bank of Japan
Representative Office in Singapore

PREFACE

Many developed countries are facing the problem of a greying population, and Singapore is of no exception. In less than three decades, 795,900 Singaporeans will reach 65 years and above compared to the current number of over 237,000. That is equivalent to 3.5 persons taking care of 1 retiree. To add to that, birth rates for the past years have been below the requirements to replace the population. With the impending ageing population and increasing standard of living, Singapore must find ways to make sure that the retirees have enough savings for their old years.

Unlike governments who used the Pay-As-You-Go System (PAYG) to fund the pension systems and thereby resulting in redistribution of funds and retirees receiving lesser than what they contributed during their working years, Singapore make use of the Save-As-You-Earn System (SAYE) to help Singaporeans ensure financial security in their retirement years. The SAYE system ensures that all amount paid by an individual will be placed in an individual account and the individual will be able to receive all of savings accumulated plus interest at the age of retirement. In Singapore, the Central Provident Fund (CPF) Board is in charge of the task. Mandatory for all working Singaporeans, a part of their salary will be put into their individual accounts, and after the age of 55 years old, they can withdraw the same amount as they have accumulated all these years, plus interest earned.

This report will focus on Singapore's social security system, the CPF. Section 1 of the report describes Singapore's problem of low birth rates and increasing aged. Section 2 will introduce the CPF system – how it works and what it consists of. Section 3 describes the services it provides for members who contribute to the CPF, as well as the statistics of the CPF, and the next section includes two case scenarios of how a typical Singaporean's CPF savings will compute from the start of his career to his retirement. Section 5 will briefly describe Japan's pension system and compare it with Singapore's CPF system, pointing out strengths and weaknesses of both systems. This report will conclude that Singapore's CPF, though famous as a role model for many countries to shape their pension systems, still has rooms for improvements, particularly in allowing more involvement from the private sector and the people who contribute to the CPF.

Teo Besey
Researcher
Assistant Professor Lai Si, Tsui-Auch
Editorial Advisor

TABLE OF CONTENTS

Page

1. Introduction 1

- Demographics of Singapore

2. The Central Provident Fund (CPF) 3

- How the CPF Works
- Special, Ordinary and Medisave Accounts

3. Uses Of CPF 7

- Retirement
- Home Ownership
- Health
- Others
- Statistics of the CPF Board

4. Examples Of CPF Savings For A Singaporean 12

- Example 1: CPF Savings without Investments or Housing Instalments
- Example 2: CPF Savings with Housing Instalments
- Assumptions used in the CPF Savings ProjEctor to Calculate Findings

5. Japan's Pension System In Comparison To The CPF 14

6. Conclusion 20

Appendix 1: Coverage for Hospitalisation Bills, Maternity and Outpatient Treatments Expenses 22

Appendix 2: Calculation for Availability of CPF Savings for Education Scheme 24

References 25

1. INTRODUCTION

Demographics of Singapore

Rapid economic growth over the last four decades has made Singapore a globally recognised country economically and politically. Together with it though, came the imminence of a greying population. As standards of living, healthcare quality and education level increased so did life expectancy rates, late marriages and singlehood. In addition, Infant mortality was reduced, and traditional values of living as an extended family diminished while having nuclear families became a rising trend. Worries during the 1960s and 1970s that economic advancement could not be carried out fast enough due to the high birth rate stimulated a family planning campaign called “Stop at Two”, which encouraged the use of contraceptives and providing cheap or even free abortions and sterilisation procedures. It even went as far as to implement disincentives that included no maternity leave for the third child and no priority to school admissions for the third and subsequent child unless one of the parents underwent sterilisation. Perhaps the government’s intervention in family planning was so successfully implemented that Singaporeans now prefer smaller families (The Straits Times Singapore, 2000).

While population growth was recorded at about 2.8 per cent during the 1960s, by the 1980s birth rate fell to alarmingly low levels. By then, campaigns aimed at trying to increase birth rates such as “Have Three or More if You Can Afford It” and the recent “Baby Bonus” that give cash bonuses to families who have three kids or more has not spurred Singaporeans to have bigger families. As one gynaecologist puts in, “They (Singaporeans) have been brainwashed for years and can no longer count or see beyond two (children)” (The Straits Times Singapore, 2000). Last year, Singapore has only 36,000 resident babies, or a history-low of 1.26 babies per resident. That figure is even lower than Japan’s, which stood at 1.29 in 2003, and far below the 50,000 babies needed to replace the population (Singapore Department of Statistics and Ministry of Finance, 2004).

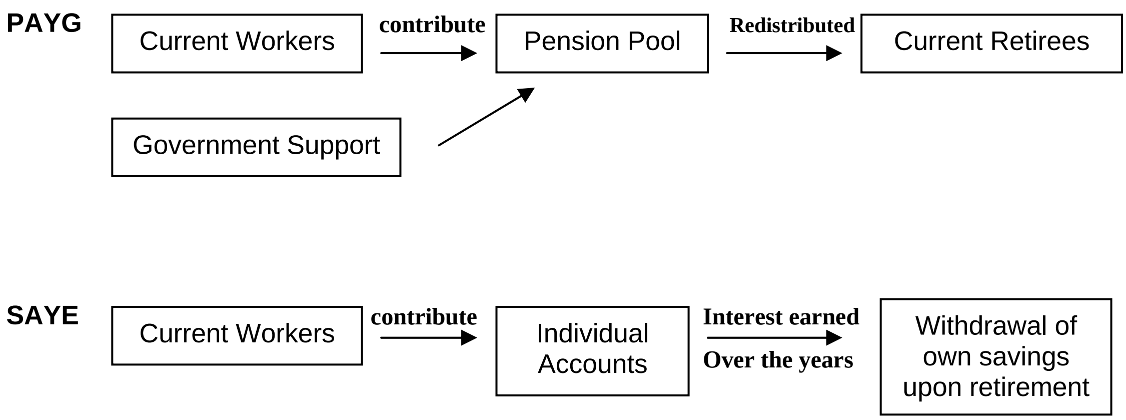
Consequently, compared to only 2.4 per cent of the population who are over 65 years old during the 1960s, the total number of people in that category rose to 237,626, or about 7.7 per cent of the population as of 2003 (Ministry of Health web site). Young adults under 14 years old only took up 21 per cent of the population in contrast to 43.5 per cent in the 1960s (Hateley and Tan, 2003). By 2030, it is believed that 795,900 Singaporeans will reach 65 years and above, which is equivalent to about 3.5 persons taking care of one retiree (CPF Board web site).

Ensuring that the aged are taken care of is therefore one of the basic challenges that the government has to face. Most countries have a pension or welfare system to make sure that the retirees are taken care of. In Singapore, the government believes in self-help and in providing tools to help Singaporeans cope with their old age. Instead of spending huge amounts on providing welfare services for its people, it implemented a mandatory savings scheme for all working Singaporeans to prepare them for their retirement called the Central Provident Fund (CPF). Although initially introduced as a pension scheme, it has now evolved to allow members to use their funds for various needs such as payments for house, education, medical and hospitalisation fees.

2. THE CENTRAL PROVIDENT FUND (CPF)

Most industrialised countries provide social security in the form of pay-as-you-go (PAYG) system, which is controlled, managed and partially financed by the government, and current workers contribute into a pool of fund that will be redistributed to current retirees. Another form of social security is the save-as-you-earn (SAYE) system, whereby whatever the worker contributes will be credited into a specific individual account and the total amount of money contributed will be available for withdrawal at the time of retirement. Compared to PAYG schemes, the SAYE provides many benefits. Firstly, each generation of workers will provide for their own retirement through their individual savings, therefore occurrences of members contributing more than what they will receive when they retire due to redistribution do not happen. Secondly, the government enjoys access to the fund to support the economic and social development of the country, as well as to induce high national savings rate in line with its mandatory nature (Low & Aw, 1998).

Chart 1: Pay-As-You-Go (PAYG) System Vs Save-As-You-Earn (SAYE) System



The Central Provident Fund (CPF), Singapore's social security system, was enacted in 1953 by the colonial government and later established in July 1955. It follows the principle of prudence and self-reliance. With its self-funding nature, it ensured that the British government would not have to be burdened with providing social welfare to its colonies. Unknowingly to the British government, the CPF would turn out to become one of the most successful models for many countries to look upon, and would assist greatly in Singapore's economic development over the years. After the PAP took over the country following independence, the mandatory, retirement savings scheme for all employed Singaporeans gradually evolved to provide more than just retirement security. Today, the CPF is an extensive social security savings plan that also allow members to use the funds for healthcare, home ownership, family protection, and asset enhancement via CPF-approved investments (CPF web site).

How the CPF works

As the trustee of all members' savings, the CPF Board commits itself to protecting and preserving the value of the CPF savings. To the employees, they ensure that CPF contributions are made timely by the employers and employees in the most convenient way possible. The government helps by excluding tax for CPF earnings, while CPF in turn make its assets and funds accessible to the Government to be used in fulfilling the country's social and economic goals. Most of the CPF balances are invested in non-marketable securities, which is managed by the Government Investment of Singapore (GIC) (Hateley and Tan, 2003).

Employees who earn more than $500 a month and employers who have employees earning more than $50 a month will have to contribute to CPF. Maximum monthly contribution of CPF is fixed at a salary ceiling of $5,500 a month as of January 2004 but will be adjusted yearly to decrease to $4,500 by 2006 (CPF Contribution Rate Booklet 2004). For the self-employed, CPF contribution is voluntary. In 1955, the contribution rate by both employees and employers were set at 5% of the employees' salaries, but changes according to the economic conditions of the country. Today, employees at age 55 and below contribute 20% of their salary to the CPF, whereas employers contribute 13%. The percentage of contribution decreases for employees above 55 years old (see Table 1). When an employee and his/her employer contribute to the CPF, it will be noted by the CPF collection system online and credited into the employees' individual accounts. The CPF collection system can also track newly employed members through a link-up with the Ministry of Home Affairs as well as send reminders to employers who have not made contributions. Random checks are also performed to ensure that CPF contributions are correctly made.

Special, Ordinary and Medisave Accounts

Members of the CPF have three accounts that serve different purposes **– *Special account, Medisave account, and Ordinary account*.** The Special Account is basically for retirement and to invest in retirement-related financial products. When a member reach 55 years old, the Special account will be converted into a Retirement account and monthly payments will be paid from the account to the members when they turn 62. The Medisave account allows members to pay for some outpatient services, hospitalisation fees, and approved medical insurance, as well as for hospitalisation fees of their families. The Ordinary Account is meant for purchasing home, CPF insurance, investments and education (in the form of repayable loans). For the three accounts, members earn interest rates for their contributions, which are pegged to the major local banks' savings interest rates, subject to a minimum rate of 2.5% per annum. For the past years, the interest rates have stayed at 2.5% for the Ordinary account, and 4% for the rest of the accounts.

Table 1: Rates of Contribution (1955 – Present)

YEAR	EMPLOYEE'S AGE	CONTRIBUTION RATE (%)		CREDITED INTO (%)			TOTAL (%)
		By Employer	By Employee	Ordinary A/C	Special A/C	Medisave A/C	
Jul 1955	–	5	5	–	–	–	10
Sep 1968	–	6.5	6.5	–	–	–	13
Jan 1970	–	8	8	–	–	–	16
Jul 1975[1]	–	15	15	–	–	–	30
Jul 1985[2]	–	25	25	40	4	6	50
Jul 1988	≤ 55 years	12	24	30	–	6	36
	Above 55 – 60 years	11	20	25	–	6	31
	Above 60 – 65 years	9	19	22	–	6	28
	Above 65 years	8	18	20	–	6	26
Jul 1990	≤ 55 years	16.5	23	30	3.5	6	39.5
	Above 55 – 60 years	12.5	12.5	19	–	6	25
	Above 60 – 65 years	7.5	7.5	9	–	6	15
	Above 65 years	5	5	4	–	6	10
Oct 2003 To Present[3]	≤ 35 years	13	20	22	5	6	33
	Above 35 – 45 years	13	20	20	6	7	33
	Above 45 – 55 years	13	20	18	7	8	33
	Above 55 – 60 years	6	12.5	10.5	0	8	18.5
	Above 60 – 65 years	3.5	7.5	2.5	0	8.5	11
	Above 65 years	3.5	5	0	0	8.5	8.5

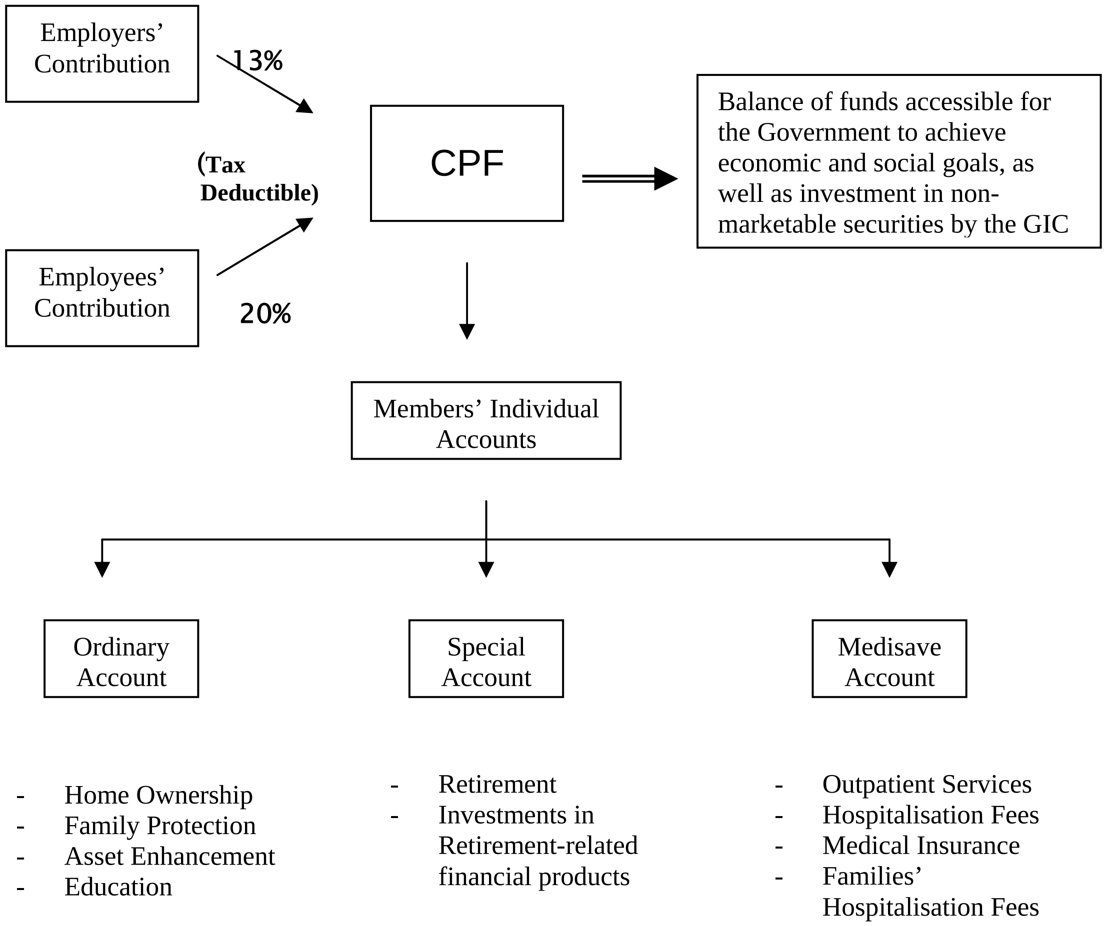
[1]Maximum contribution increase from $450 to $600 per month

[2]Maximum contribution increase from $2,500 to $3,000 per month

[3]Jan 2004: CPF ceiling was decreased to $5,500 from $6,000

Source: Central Provident Fund Board Annual Report 2002, CPF web site: http://www.cpf.gov.sg

Chart 2: Functions of the CPF



3. USES OF CPF

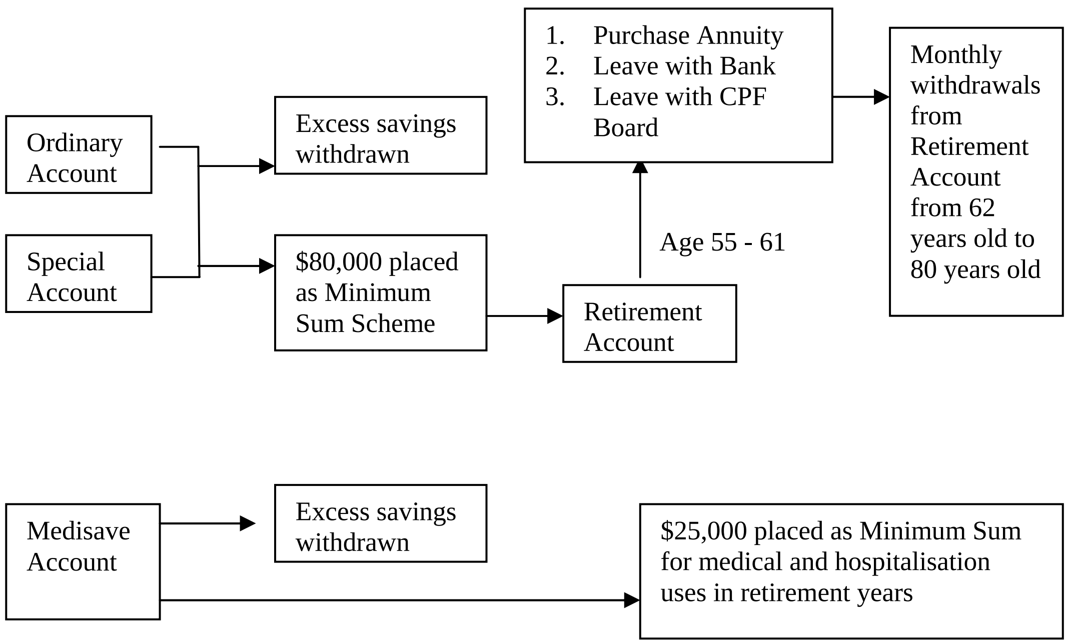
(Sources: CPF Board Annual Report 2002 and CPF Board web site, http://www.cpf.gov.sg)

Retirement

The most fundamental purpose of the CPF is to provide financial security for Singaporeans in their old age. At age 55, members can withdraw excess savings in the Ordinary and Special accounts after deducting what is required to be set aside for the **Minimum Sum**, at which a Retirement account will be created. Excess Medisave savings can be withdrawn as well if they have more than $25,000 in the account. The Minimum Sum Scheme is specially introduced to ensure that CPF members have adequate savings to fulfil their basic needs throughout retirement.

As of 2003, members who are 55 years of age must have a Minimum Sum of $80,000. The government has decided to increase the Minimum Sum gradually by $4,000 a year for the next ten years to reach a Minimum Sum of $120,000 by 2013, so that members will get more financial support during their old age to take care of their needs. Half of the Minimum Sum can be pledged with a property, while the rest must be in cash. Members have to choose from three options what they will do with the Minimum Sum, namely 1) Purchase a life annuity from an approved insurance company, 2) leave the money with an approved bank, or 3) keep it with the CPF Board. As a member reaches the age of 62, he will receive monthly payments from the Minimum Sum for his retirement to last him till 80 years of age. If a member do not have sufficient balance in their Ordinary and Special Account for the required Minimum Sum, he is allowed to withdraw only $5,000 (for savings 10,000 or less) or up to half (for savings less than $160,000) of their savings, leaving the rest in the Retirement Account, without any need for top-up.

Chart 3: Minimum Sum Scheme



Home Ownership

In the initial years of independence, poor housing conditions in Singapore prompted the government to set up the Housing and Development Board (HDB) to build affordable public housing for the people. In order for Singaporeans to afford them and to fulfil the government's goal of 100% home ownership for its citizens, the Home Ownership Scheme was launched in 1968 to allow the use of CPF savings to purchase public housing and to pay for their instalments (Low & Aw, 1998). Using funds from the Ordinary Account, the Public Housing Scheme enable members to purchase and/or pay monthly instalments for HDB flats, and the Residential Properties Scheme enables members to purchase and/or pay their instalments for private residential and executive condominiums. Since 1999, savings in the Special account can also be used to help meet any shortfall of funds in the Ordinary account to pay for monthly instalments.

Health

Created in 1984, the Medisave account "is the national savings scheme which helps individuals put aside part of their income in their Medisave Accounts to meet their personal or immediate family's hospitalisation expenses, especially after retirement". The Medisave account has a contribution ceiling of up to $30,000, with the excess transferred to the member's Ordinary Account. When a member turn 55, they are required to maintain $25,000 or the balance of their Medisave account, whichever is lower, in the account so as to ensure that healthcare needs are taken care of in their old age. If a member or their dependant is hospitalised, Medisave covers up to $300 per day for hospital charges, and from $150 to $5,000 for surgical operations. Applicable for use in all government restructured hospitals, approved private hospitals and medical institutions, Medisave also covers a wide range of outpatient treatments (See Appendix 1 for details in coverage and types of treatments).

Besides the above features, savings in the Medisave account can also be used to pay for two insurance schemes available called MediShield and MediShield Plus. These two insurance schemes provide members and their dependants with "financial protection against the costs of treatment of prolonged or serious illnesses", with MediShield Plus having a higher coverage. MediShield Plus consist of two plans – A and B, with the former covering higher portions of hospitalisation expenses in higher class wards, and the latter lower but still significantly higher than MediShield. Table 2 below shows the range of annual premiums payable depending on the age of the insured, annual claims and lifetime claim limits of MediShield, MediShield Plus Plan A and B.

In addition to these schemes, a one-time MediShield Scheme for the Elderly, or MSE, were introduced in 2000, encouraging Singaporeans who are 61 to 69 years old as of 2000 to be insured under MediShield or an equivalent insurance scheme. Two years rebate on annual premiums were given to those who signed up and will receive benefits of $192 to $480 worth of benefits over two years. At the end of the drive, 80% of elderly Singaporeans have been insured. Besides helping the elderly, a form of endowment fund termed Medifund was set up as well specifically to help the poor who cannot afford medical treatments.

Chart 4: Medisave Account

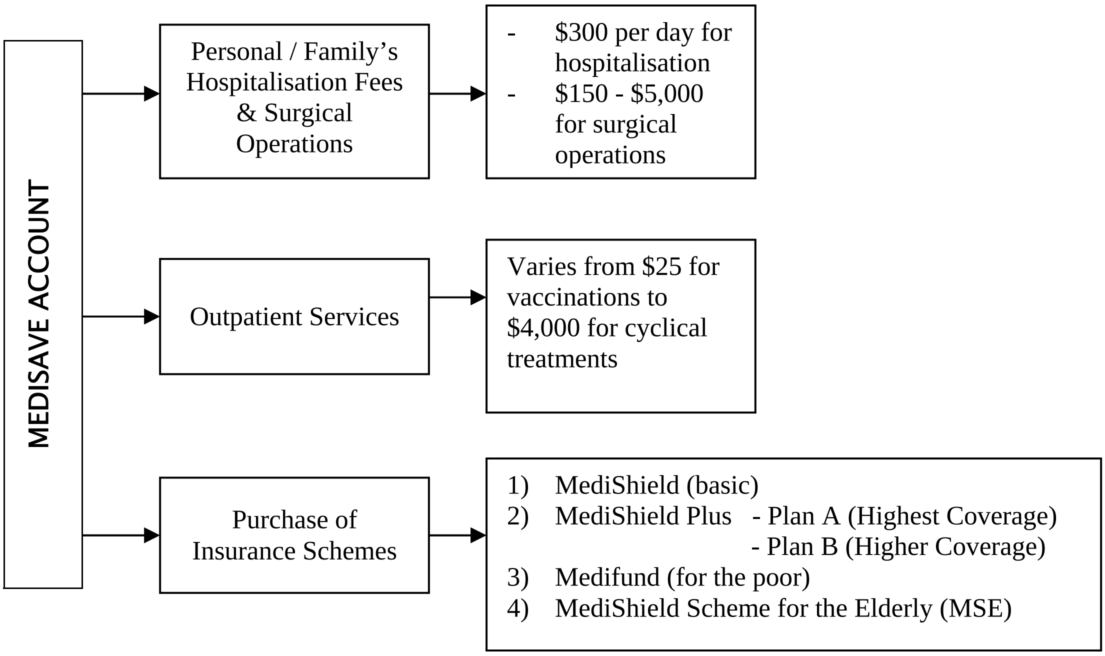


Table 2: Differences in MediShield, MediShield Plus Plan A and Plan B

	MediShield	**MediShield Plus**	
		Plan A	**Plan B**
Annual Premium (30 – 80 years old)	$12 – $390	$60 – $1,950	$36 – $1,170
Annual Claims	$30,000	$100,000	$75,000
Lifetime Claim Limit	$120,000	$300,000	$225,000

Source: CPF Annual Report 2002 and CPF Board web site: http://www.cpf.gov.sg

Others

Besides the uses mentioned above, the CPF Board also provides the following services for its members.

A. Asset Enhancement

1) CPF Investment Scheme

   The CPF Investment Scheme (CPFIS) was established in 2001 for members to invest in CPF-approved financial products such as fixed deposits, insurance policies, unit trusts, and Singapore government, statutory board and government guaranteed bonds. Savings in both the Ordinary and Special accounts can be used for such investments.

2) Non-Residential Scheme

Non-Residential Properties scheme was introduced to allow members to buy commercial properties using their CPF savings in 1986, in accordance to the government's push for entrepreneurship.

3) Education Scheme

This scheme was set up in 1989 initially to help lower income families support their children through tertiary education. It has now improved to allow members to pay for their children and their own full-time tertiary education in approved local universities, polytechnics and art colleges. Members can withdraw up to 40% of their accumulated Ordinary Account (See Appendix 2 for calculation) for the Education Scheme, and repayment into the CPF account will commence only one year after the student graduates or leave the course, with interest rates the same as the current CPF interest rate.

B. Family Protection

1) Dependants' Protection Scheme

Acting as a life insurance, the Scheme help members and their families cope financially should the insured member "become incapacitated, or die before age 60". The annual premium range from $36 to $360, according to age, and pays up to a maximum of $36,000 for claim.

2) Home Protection Scheme

This Scheme is compulsory for every family who purchases a HDB flat using their CPF savings. Should the owner of the house be unable to pay his outstanding mortgage due to permanent incapacity, unemployment, or death, the CPF Board will pay off the mortgage for the family.

Statistics of CPF Board
(Source: CPF Board Annual Report, 2002)

As of 2002, the total number of CPF members stood at 2,963,160, of which 1,283,707 were active members. The total members' balances amounted to $96,422.6 million, and interest earned by members totalled $2,897.3 million. For the year 2002 alone, $16,165.7 million were contributed by employers and employees, while $14,821.4 million was withdrawn by the members.

Members who turned 55 in 2002 withdrew $1,531.5 million worth of their savings, and 38,365 members were required to keep a Minimum Sum of $75,000[1]. Among them, 6,801 chose to

[1] Minimum Sum at 2002 was set at $75,000 and increased to $80,000 in 2003.

purchase annuities, 14,100 pledged their properties, and 5,470 chose to have their Minimum Sum remain with the CPF Board. 11,994 members did not have sufficient balances to set aside money for the Minimum Sum for various reasons. Members also withdrew $361 million from their Medisave accounts, and only 54.7% of CPF members have managed to attain the required Medisave balance of $25,000, with the average balance in their accounts at $18,983. 1,370,046 members were covered under MediShield, while 95,724 or $63.6 million worth of claims were approved. Under MediShield Plus, a total of 359,325 members and their dependants were covered and 11,558 or $14.6 million worth of claims were approved.

In home ownership, 94.9% of CPF members aged 21 and above owns HDB flats and 70% of employees above the age of 21 owns residential properties bought using their CPF savings. The Annual Report also shows that in 2002, members withdrew more than $11,900 million worth of savings to purchase HDB flats and private residential properties. As for the other services, 1,535,642 members took up the Dependants' Protection Scheme, 676,502 members were covered under the Home Protection Scheme, 722,001 members invested a gross amount of $44,785.5 million into the CPF Investment Scheme – Ordinary Account (CPFIS-OA) using their CPF savings, while 407,126 members invested $4,281,3 million in the CPF Investment Scheme – Special Account (CPFIS-SA). Lastly, there were 13,189 applications for the Education Scheme and $94.7 million were withdrawn for the use of tuition and administrative fees. Repayment amounted to $40.3 million.

4. EXAMPLES OF CPF SAVINGS FOR A SINGAPOREAN

This chapter will provide examples on how a typical Singaporean's CPF is being computed from the time he begins his working life till he turns 62 when he retires. Two cases are illustrated to portray the difference in savings the member will accumulate if he should 1) not use the CPF savings at all, and 2) use his CPF savings to buy a house. The computations are accomplished with the help of CPF Boards CPF Savings ProjEctor, which projects one's CPF savings to enable one to plan for "a more gracious retirement". The CPF Savings ProjEctor can be found at the CPF Board's web site. The examples will be based on a 25 years old male (i.e. born in the year 1979) who has recently started working having just graduated from the university. A fresh graduate's salary is estimated at around $2,500, and with the assumption to receive a one-month bonus at end of every year, with an annual wage increment of about 5%. The only expense he will have to pay via his CPF savings is the annual $12 premium for MediShield from his Medisave account. The 25-year old will become a CPF member immediately once he starts working, and will start contributing to the CPF by the end of the month. The end of the section shows the relevant assumptions used in calculating the amount of CPF savings.

Example 1: CPF Savings without Investments or Housing Instalments

The following shows the amount of savings he should have saved by 55 years and the amount he will be able to withdraw when he reaches 55 until 62 years old. After 62 years old, he will then be able to withdraw money monthly from his Retirement Account till he turns 80, which is approximately $555 a month without taking into consideration interest accumulated.

Table 3 and 4

Ordinary Account	Special Account	Medisave Account	Retirement Account
$0.00	$0.00	$25,000.00	$120,000.00

Age	Amount Available for Withdrawal
55	$ 653,545.52
56	$ 26,384.60
57	$ 18,039.03
58	$ 18,145.35
59	$ 18,255.55
60	$ 18,371.24
61	$ 18,155.23
62	$ 11,248.74

N.B: The member is assumed to continue working even after 55 years old. At age 55, he is able to withdraw all his savings in the CPF account (after deducting the Minimum Sums requirements in the Retirement and Medisave Accounts) and continue to contribute to the CPF every month until he reaches the official retirement age of 62. After 55 years old, the member is allowed a choice of withdrawing his CPF savings every 3 months or every year. In this case, the table above reflects a yearly withdrawal after 55 years old.

Example 2: CPF savings with Housing Instalments

The next example illustrates the changes in the CPF savings should the member decide to purchase a house and pay monthly instalments of $400 to the HDB for the next 30 years (which will amount to $144,000). Note that the Retirement Account is left with only $60,000 as the CPF allows members to pledge their property as half of the required Minimum Sum. This will leave the CPF member with only a sum of approximately $280 to withdraw every month from age 62 to 80 years old.

Table 5 & 6

Ordinary Account	Special Account	Medisave Account	Retirement Account
$0.00	$0.00	$25,000.00	$60,000.00

Age	Amount Available for Withdrawal
55	$ 503,911.07
56	$ 22,562.33
57	$ 15,637.20
58	$ 15,743.11
59	$ 15,853.59
60	$ 15,969.58
61	$ 15,753.82
62	$ 10,433.46

*** Assumptions used in the CPF Savings ProjEctor to Calculate Finding**

- Interest earned in the CPF Accounts is calculated monthly but credited annually in December
- Salary Ceiling will be decreased by $500 every year from 1 Jan 2004 to 1 Jan 2006 from the original $5,500 to $4,500. The projection will take into consideration this change.
- Besides the CPF Minimum Sum (which will be $120,000 in today's dollars), the member will also have to set aside the Required Amount in the Medisave Account at age 55 (which is $25,000)
- The 50% withdrawal rule will be phased out gradually from 1 January 2009, and from 1 January 2013, the CPF and Medisave Minimum Sum must first be met before making withdrawals at age 55. But the member can continue to withdraw the first $5,000 in his CPF accounts, even if the Minimum Sums requirements are not met.
- If the CPF cash savings at age 55 is insufficient to meet the full CPF Minimum Sum, the CPF savings used for property will be used as a pledge (subject to the maximum pledge limit)
- Inflation is assumed to be zero.

Source: The CPF ProjEctor, CPF web site: http://www.cpf.gov.sg

5. JAPAN'S PENSION SYSTEM IN COMPARISON TO THE CPF

The Japanese pension system goes by the pay-as-you-go method (PAYG), different from Singapore's save-as-you-earn method (SAYE). Although established before the 1900s, a thorough pension and health system was only established in 1961. Modifications such as adjustment to consumer price inflation, increase in real wages and increase in benefit levels were made in 1973 so as to become more comparable to the standards of the other major developed countries (Horioka, 1997). Currently Japan adopts the two-tiered pension system, the first tier being the National Pension Scheme (Kokumin Nenkin), which is the universal system for all Japanese age 20-60 years old, regardless of their employment or marriage status. The second-tier consists of the Mutual Aid Pension Scheme (Kyosai Nenkin) and the Employees' Pension Scheme (Kosei Nenkin). Most salaried workers in the private sector are included in both the National Pension Scheme and the Employees' Pension Scheme, while local and national government employees, as well as employees from agricultural, fishery, forestry organisations belong to the National Pension Scheme and the Mutual Aid Pension Scheme (Japan Ministry of Health, Labour and Welfare).

Residents between the ages of 20 and 59 are required to pay a fixed sum of 13,300 yen monthly to the National Pension Scheme, and receives an average monthly amount of 67,000 yen when they reach 65 years old (Keizai Koho Centre). Salaried workers in the private sector who are in the Employees' Pension Scheme pay a percentage of their salary, currently at 13.85% (of which their employers are compelled to pay half of it to), which includes contribution to the National Pension Scheme. Employees under the Mutual Aid Pension Scheme pay 13.3% to 19.49% of their monthly salary depending on which scheme they belong to. The employer is to pay half of the premium as well, which includes contribution to the National Pension Scheme (See Table 7) (Japan Ministry of Health, Labour and Welfare).

For Singapore, non-working citizens and the self-employed do not have to contribute to the CPF, as the government holds by the principle that the working adults in the family should take care of their parents and dependants. Private sector employees, non-pensionable employees in the government, statutory bodies and aided schools, as well as Singapore permanent residents who have worked for more than 2 years all contribute the same amount into the CPF. However, pensionable employees in the government, statutory bodies and aided schools, and permanent residents who worked for less than two years or are in the government sector have different contribution rates (See Table 8), but enjoy the same benefits such as Medisave withdrawals, home ownership, etc. provided by the CPF. Another difference between CPF and the Japanese pension system is the inclusion of Medisave, which enables members to depend on their own savings for medical needs. In Japan though, the Health Insurance Scheme is a separate entity from the pension schemes, is based on

PAYG as well, and young workers as well as the government have to pay more into the fund so as to support the health care needs of the country.

Table 7: Japanese Pension System

Occupation / Age	Category		Cost of Premium
Self-employed, farmers, students etc. (Japanese Citizens who are 20-60 years old)	National Pension Scheme		Monthly fixed amount of 13,300 yen
Salaried workers in the private sector under 65 years old	National Pension Scheme	Employees' Pension Scheme	Monthly contribution of 13.58% of employees' salaries (half of which paid by employers)
Government employees, employees in the agricultural, fishery, forestry organisation	National Pension Scheme	Mutual Aid Scheme	Monthly contribution of 13.3% - 19.49% of employees' salaries (half of which paid by employers)
Housewife, spouse and dependants of members in employees' pension scheme and mutual aid schemes	National Pension Scheme		No contributions are needed

(Source: Ministry of Health, Labour and Welfare, Japan, http://www.mhlw.go.jp)

Table 8 & 9: Singapore CPF Contribution Rate for Workers in Government Sector and In the First 2 Years as Permanent Resident (PR)

Government pensionable employees

Employee Age	Contribution by Employer (%)	Contribution by Employee (%)	Total Contribution (%)	Credited into		
				Ordinary a/c (%)	Special a/c (%)	Medisave a/c (%)
35 & below	9.75	15	24.75	16.75	3.75	4.5
Above 35-45	9.75	15	24.75	15	4.5	5.25
Above 45-55	9.75	15	24.75	13.5	5.25	6
Above 55-60	4.5	9.375	13.875	7.875	0	6
Above 60-65	2.625	5.625	8.25	2.25	0	6
Above 65	2.625	3.75	6.375	0	0	6.375

Permanent Residents in their first 2 years of acquiring the status

Year of Acquiring PR Status	Age of Employees							
	55 and below		Above 55-60		Above 60-65		Above 65	
	Employer	Employee	Employer	Employee	Employer	Employee	Employer	Employee
1st year	4	5	4	5	3.5	5	3.5	5
2nd year	9	15	6	12.5	3.5	7.5	3.5	5

With PAYG method, Japan's pension system adopts the method of inter-and intra-generational allocation of resources, which causes current working population to contribute more than they will get back in their retirement so as to support the current retirees. This can be expected to become a problem as the ageing of the population proceeds at an alarming rate, in addition to the declining birth rate. To add to it, almost 40% of young workers defaulted on their payments last year. Polls conducted by Japanese newspaper show that there is a lack of trust towards the pension fund among the citizens, who do not believe the pension system will provide for them sufficiently in their old age (International Herald Tribune, May 7, 2004). The complicated regulations and red tape within the pension system also add to many defaulting on their payments either unknowing or intentionally. Furthermore, although reminders are sent to defaulters, unpaid premiums are not collected as stringently as it should, not to mention that the pension law does not allow the government to collect any debts more than two years, which resulted in an 8 trillion-yen deficit (The Straits Times, Singapore May 12, 2004). According to the International Herald Tribune, it is expected that "there will be a $4 trillion gap between the government's future pension obligations and its future contributions" (May 7, 2004).

The recent Diet session focused on the proposal to reform the pension system. The newly enacted bill was passed on June 5, 2004, attempting to reform the pension system by increasing premiums while at the same time cutting benefits. It will began in October, intending to increase the National Pension's premium to 16,900 yen by 2017, from the current 13,300 yen and premiums paid into the Employees' Pension Scheme will also be increased from 13.85% currently to 18.30% by 2017, while benefits will be reduced by 15% (The Straits Times, Singapore, May 12, 2004). According to the Japanese newspapers, other changes such as making the complicated system easier to understand or combining all three systems under one instead to reduce complexity, rather than to increase the burden of the workers were suggested. Nonetheless, the government had agreed in writing to create a committee that will find a solution to improve the pension system, hoping to reach a conclusion by March 2007 (The Japan Times, June 8, 2004).

Singapore's CPF system is, compared to Japan's pension system, stringent in making sure payments by both employers and employees are duly paid for. It is compulsory, and once a person steps into the working world, he or she is automatically recorded and signed up as a member of the CPF Board via a link-up with the Ministry of Home Affairs. Monthly contributions are carried out electronically and deducted directly from the salary. Employers who fail to contribute CPF for their employees will be issued warnings and further default of payments will lead to fines and jail terms for the employers, even bankruptcy of the company. It is also less complicated than the Japanese pension system as CPF savings are portable, that is, members have to make little or no changes at all to their CPF savings if they change their jobs, companies, or becomes unemployed. Employers simply have to go through simple procedures to add or remove an employee from its list. This makes contribution easy and effective.

The CPF system goes through modifications whenever needs arise due to economic and social changes. Contribution rates, for example, increased when the economy was robust and decreased during the economic downturn. The services provided by the CPF Board changes as well, according to the needs of its citizens. For examples, the use of CPF for purchasing homes in 1968, the creation of the Special Account in 1977 to ensure CPF members save a portion of their contributions specifically for their retirement when increasing numbers of members are withdrawing their savings for housing, and the implementation of the Minimum Sum scheme in 1987 (subsequently the creation of a Retirement Account in 1995) to make sure that members do not withdraw all their savings at 55 and due to negligence, have insufficient finances in their later years (Low & Aw, 1998). Recent changes include the introduction of financial products for CPF members to invest in so as to receive higher rate of return for their savings in 2001. Via the Internet, members can also access the CPF Board web site to find out more about the CPF, check their monthly CPF statements, and submit online applications. A recently launched education program called ‘my cpf’ can now provide Singaporeans with informative help on what they should plan or do in every major phase of their lives, such as getting married, making an investment or planning for retirement (Channelnewsasia, June 23, 2004).

Despite its constant improvements and its reputation for being the most successful and efficient pension systems among Asian countries, the CPF system has its share of weaknesses as well. Most obviously would be those who do not work do not qualify as a CPF member and that it is not necessary for the self-employed to contribute. In addition, the structure of the CPF is such that those who earn a lot will enjoy more benefits from the CPF whereas those who earn little will gain little from it. The CPF is not structured to help the needy, instead relying on the principle that family members should take care of each other, especially the elderly. The increasing trend for small families and high cost of livings though, means that many elderly are not given the required care and support. There is a need therefore to find ways to increase the independence of the aged. In addition to that, the government’s continual refusal to provide unemployment benefits and insurance, and early withdrawal of CPF savings, especially since retrenchment and unemployment rate had increased significantly during the Asian economic crisis sparked a debate on a recent Parliamentary session. To a certain extent, the CPF’s insurance schemes such as the Home Protection Scheme provide some form of support for the unemployed and their family, but CPF savings are not allowed to be withdrawn until the age of 55 or due to death. The session ended with the conclusion that the CPF savings are untouchable until a member turn 55 years old.

The second problem lies in the excessive services provided by the CPF board for members. More emphasis was placed on placing more savings in the Ordinary account (22%) compared to the portion in the Special Account (5%). Home Ownership for one uses up most of members' savings, and many could not meet the Minimum Sums requirements, thus resulting in insufficient financial security in their retirement. The low returns due to CPF's interest rates pegged to local banks' yearly interest rates have been criticised as part of the reason for insufficient withdrawals upon retirement as well (Hateley & Tan, 2003). According to the CPF Board's Annual Report, out of more than 38,000 members who turned 55 years old in 2002, almost 12,000 members did not meet the Minimum Sum requirement, either because they had too little balances to set aside, or were exempted due to terminal illnesses, death, own private annuities or had left the country permanently. The fact displays the trend in Singapore – that many are unable to guarantee themselves a comfortable lifestyle in their old age. Even when they should meet the Minimum Sum requirements, a little more than $500 a month (or $280 for those who pledged their property for half of the Minimum Sum) is definitely insufficient. The recent economic downturn also saw another trend happening – in order to ease the employers' burden of high labour costs, the government decreased the employers' share of contribution, causing many employees to face problems in affording monthly housing instalments, which they pay via the CPF savings. In the long run, members also face the decrease in savings for retirement and funds for investments.

In terms of managing the members' retirement savings, the CPF Board and the government enacts the rules and regulations, and makes all the major decisions for the members. To a certain extent, CPF members feel that they should be allowed more involvement in deciding on matters such as the contribution rates of CPF, or the changes to the Minimum Sum requirements.

Nonetheless, the CPF is still the next best solution for a country besides providing cradle-to-grave welfare support for its people. Improvements have always been made to improve the CPF system whenever the need arises, and the CPF Board remains active in it. Unemployment benefits though, are unlikely to be introduced at all, as the government holds firm that as a vibrant, developing country like Singapore, it is rather a lack of effort by the individual than the lack of opportunity to be unemployed. With the low interest returns that the CPF provide, allowing the private sector to participate more in encouraging Singaporeans to save and earn better returns would do well for both the members and the economy. Although government has since allowed funds in members' Ordinary and Special Accounts to be used for CPF-approved investments, but the variety is still minimal and it can be opened up further for private fund managers to access and manage members' savings more effectively. Taking up the Economic Review Committee proposal in 2002 for the CPF to privatise its services so that competition among the private sectors will spawn better benefits and services for the members, the CPF Board will be privatising its Dependants Protection Scheme once a suitable private insurer is available. The proposed privatisation is expected to complete by next year, and premiums paid by members are expected to change only slightly. (Channelnewsasia, June 24, 2004)

6. CONCLUSION

Most developed countries are already experiencing a greying population, and Singapore is seeing a rising trend in the proportion of elderly aged 65 and above to the total population from just 2.4% four decades ago to the current 7.7%. Caring and supporting the elderly is thus an urgent issue for the government. In most countries, providing social welfare is a norm, adopting the Pay-As-You-Go method in placing pension fund contributed by the current working population and subsequently giving out to the current retirees. Government themselves have to provide extra funds to support the growing numbers of pensioners in their countries in addition to providing health subsidies, unemployment insurance and benefits. In Singapore though, the government goes by the Save-As-You-Earn principle, emphasising its status as a state that abhors providing welfare and that every citizen should look out for themselves and their families. Hence, even after the country attained independence, they retained the colony's creation – the Central Provident Fund (CPF), a mandatory retirement savings plan for every working individual, whose contributions will accumulate in a personal account and will receive an amount equivalent to their total contributions with interest at the turn of age 55. The CPF has gone through several changes since its enactment, and now not only serves the basic purpose of savings for old age, but in allowing members to use their savings for home ownership, investments, education, and medical care to name a few.

Acting on the rule of prudence and self-help, the CPF Board helps working Singaporeans save for their retirement, their housing needs (in accordance partly to the government's goal to 100% homeownership for its citizens), and helps to ease costs on hospitalisation and medical fees for themselves and their families. With an impending greying population and rising cost of living, the government also realises that the returns of the CPF are insufficient. Therefore, members have been allowed to make investments on CPF-approved financial products with their savings in their Ordinary and Special Accounts.

The CPF is the next best solution to providing welfare for its citizen, as Singapore does not abhor the cradle-to-grave support for its people. Nevertheless, it is not true to say that there is no welfare provided, because basic welfare such as housing, health and education subsidies are provided ranging from 20% to 80% of the costs. Most importantly, the individual has to make sure he helps himself. Believing in independent individuals working to provide for themselves and their family members, the government sees unemployment not as a lack of opportunity, but as a lack of effort by the individual in a vibrant, growing economy, hence the lack of unemployment benefits and insurance.

Despite that, increasing life expectancy, healthcare costs and standard of living threatens the CPF system, as members' savings no longer provide them with a comfortable lifestyle after retirement. There is a need therefore, to find a solution to ease the burden of working adults having to take care of their aged parents while simultaneously bringing up their own family and preparing for their own retirement. By 2030, each retiree has only 3.5 workers to support them. One solution will be to allow CPF savings to be invested in more variety of financial products that will provide higher returns for the members. Opening members' funds to private managers more will benefit not only the members but the insurance and fund management industry as well. As evident, the recent proposed privatisation move shows that the CPF Board will continue to ensure that adequate tools are provided for its members to plan for a sustainable retirement.

APPENDIX 1: Coverage for Hospitalisation Bills, Maternity and Outpatient Treatments Expenses

Source: Ministry of Health, Singapore, http://www.moh.gov.sg

TYPES OF TREATMENT	WITHDRAWAL LIMITS
For Inpatient Treatment	
Medical/Surgical inpatient cases	$300 per day +Surgical limits according to the Table of Operations
Approved day surgeries	$150 per day + Surgical limits according to the Table of Operations
Psychiatric treatment	$150 per day up to $3,500 a year
Stay in approved community hospitals	$150 per day up to $3,500 a year
Stay in approved convalescent hospitals	$50 per day up to $3,500 a year
Stay in approved hospices	$160 per day
Day care at Senior Citizens in Health Care Centre	$20 per day up to $1,500 a year
For Outpatient Treatment	
Hepatitis B Vaccination	Below 12 years old - $25 Between 12 to 19 years old -$35 19 years old and above - $50
Assisted conception procedures	$4,000 per treatment cycle up to 3 treatment cycles per patient (only patient and spouse's Medisave may be used).
Renal Dialysis treatment	$450 per month (only patient's Medisave may be used. For patients aged 18 and below, the parents' Medisave may be used)
Radiotherapy	For External Therapy, $80 per treatment up to $3,000 a year For Brachytherapy, $300 per treatment up to $3,000 a year
Chemotherapy (includes analgesic medication and nuclear medicine treatments)	$300 for 7-day treatment cycle
HIV anti-retroviral drugs (includes drugs used to treat opportunistic infections)	$550 per month (only patient's Medisave may be used. For patients aged 18 and below, the parents' Medisave may be used)
Thalassaemia treatment (desferral drug and blood transfusion)	$350 per month
Hyperbaric Oxygen Therapy	$100 per treatment
Outpatient Intravenous Antibiotic treatment	$600 per weekly cycle, up to $2,400 a year
Rental of devices for Long Term Oxygen Therapy and Infant Continuous Positive Airway Pressure Therapy	$75 per month
Immuno-Suppressant Drugs such as Cyclosporin and Tacrolimus	$300 per month

Coverage for Hospitalisation and Surgery Bills

Table	A	B	C
1	$100	$200	$250
2	$350	$450	$600
3	$800	$1,000	$1,200
4	$1,400	$1,600	$1,800
5	$2,000	$2,200	$2,400
6	$2,800	$3,200	$3,600
7	$4,000	$4,500	$5,000

- 1-7 represents the complexities of operation, and A-C represents sub-sections within each category.

Example:

Maternity Coverage

Type of Operation	Table of Operation	Medisave Limits ($)
Normal Delivery	2B	450
Forceps Delivery	3A	800
Caesarean Section	4A	1,400

APPENDIX 2: Calculation for Availability of CPF Savings for Education Scheme

Source: CPF web site, Education Scheme Handbook, http://www.cpf.gov.sg

Example 1(For members below 55 years old)

	Case 1 $	Case 2 $	Case 3 $	
Balance in Ordinary Account	10,000	30,000	45,000	
Net amount used for CPF Investment Scheme – Ordinary Account (CPFIS-OA)	25,000	20,000	35,000	
Net amount used for education	0	15,000	5,000	
Accumulated Ordinary Account Savings for education	35,000	65,000	85,000	
40% of Accumulated Ordinary Account Savings for education	14,000	26,000	34,000	
Less: Net amount used for education	(0)	(15,000)	(5,000)	
Withdrawal Limit for education	14,000	11,000	29,000	**(A)**
Cash balance in Ordinary Account	10,000	30,000	45,000	
Less: Amounts reserved (if any)*	(3,000)	(0)	(9,000)	
Net balance in Ordinary Account	7,000	30,000	36,000	**(B)**
Amount available for education (Lower of ‘A’ or ‘B’ figure)	7,000	11,000	29,000	

∗ These generally refer to amounts which have been reserved for housing and other schemes because of earlier commitments. In addition, CPF members should also take into account their monthly housing instalments, where applicable.

REFERENCES

Websites

1. The CPF Board, Singapore, http://www.cpf.gov.sg
2. Ministry of Health, Singapore, http://www.moh.gov.sg
3. The Japan Times, http://www.japantimes.co.jp
4. Keizai Koho Center, Japan Institute for Social and Economic Affairs, http://www.kkc-usa.org
5. Ministry of Health, Labour and Welfare, Japan, http://mhlw.go.jp
6. Social Insurance Agency, Japan, http://www.sia.go.jp

Reports & Publications

7. *The Central Provident Fund: Challenges Ahead.* United States Embassy in Singapore, U.S. Department of State
8. *The CPF Board Annual Report 2002,* The CPF Board
9. *CPF Contribution Rate Booklet 1 January 2004,* The CPF Board
10. **L. Low & T.C. Aw (1998)**, *Housing a Healthy, Educated and Wealthy Nation through the CPF,* Singapore: Times Academic Press
11. **L. Hateley & G. Tan (2003),** *The Greying of Asia: Causes and Consequences of Rapid Ageing in Asia,* Singapore: Eastern Universities Press
12. **C. Y. Horioka (1997),** *Panel Discussion: Japan's Public Pension System: What is Wrong With it and How to Fix it, Conference Proceedings, Conference Series, No. 41,* Federal Reserve Bank of Boston Social Security Reform.

Articles & Press Releases

13. *Ministerial Statement by Prime Minister Goh Chok Tong in Parliament,* August 28, 2003, Ministry of Information, Communications, and the Arts
14. Ministry of Finance Press Statement, *Singapore's Population Challenges: Minister Proposes Roadmap to Build the Next Generation of Singaporeans,* Ministry of Finance Website
15. *Japan's Pension System: Facing a Bulge in Retirees,* Kezai Koho Center Website
16. *Baby Debate: Too loud, too little, too late?* The Straits Times Singapore, 23 September 2000
17. **R. Mitton,** *Singaporeans need to have more babies. But success breeds selfishness,* Asiaweek, 1 December 2000
18. **C. Chan,** *Singapore to see lowest birth rate in 26 years,* The Straits Times Singapore, 12 December 2003
19. *CPF Board launches new initiative for retirement planning,* Channelnewsasia, 19 March 2004
20. *Heated debate over Japan's pension reform,* The Straits Times Singapore, 29 April 2004

21. **J. Brookes,** *Japan's precarious pension plan,* International Herald Tribune Online, 7 May 2004
22. **W.K. Kwan,** *Japan passes pension Bills amid furore,* The Straits Times Singapore, 12 May 2004
23. **W.K. Kwan,** *Confidence crisis hits pension scheme,* The Straits Times Singapore, 24 May 2004
24. **T. Kajimoto,** *Pension reform package enacted after dramatic all-night standoff,* The Japan Times Online Website, 6 June 2004
25. **Editorial,** *Put Pension reform above politics,* The Japan Times Online Website, 8 June 2004
26. **M. Sakamoto,** *Pension system goes from bad to worse,* Japan Today News Website, 10 June 2004
27. *CPF Board to privatise Dependants Protection Scheme,* Channelnewsasia, 23 June 2004