



The CPF board announced on 1 May 2010 that the employers' CPF contributions will rise by 1% of employees' gross salaries, to be implemented in 2 phases. What's the implication?

The first 0.5% of increase will take place on 1 September 2010 and the funds will be credited into employees' Medisave Account (MA). The remaining 0.5% increase will start on 1 March 2011 and will be credited into the Special Account (SA).

The change will benefit all Singapore citizens and permanent residents employed in Singapore.

CPF contributions as an economic lever

Employers' CPF contribution was last cut in 2003 during the SARS economic recession, from 16 percentage points to 13% for CPF members below 50 years old, before it was raised to 14.5% in 2007. Employees were spared a cut during the 2008 financial crisis and a "Job Credit" was implemented instead.

With the latest increase, employers' contribution will rise to 15.5 percentage points, just short of the 16% in place 7 years ago.

How it affects you

As an example, by March 2010, the split of total CPF contributions between the individual accounts for members below 35 years would be as follows:

	Ordinary Account	Special Account	Medisave Account
Before 1 Sep 2010	66.67%	14.49%	18.84%
1 Mar 2011 and after	64.79%	15.49%	19.72%

Clearly, the CPF restoration has avoided crediting funds into the Ordinary Account, where it would have the unwanted effect of feeding the housing boom. Instead, funds in the SA and MA would be directly channeled towards retirement and medical care.

Returns

One benefit of the having the restoration channeled into the SA & MA is that these incremental funds would earn 4% interest rather than the 2.5% interest under the Ordinary Account (OA).

Alternatively, one of the few ways that CPF members can attempt to stretch their returns would be to make investments (such as on selected unit trusts) using the extra SA inflow via the CPF Investment Scheme.

Conclusion

The CPF employer contribution restoration would have minimal impact to most people. This is because the additional funds do not go to the OA where they could be more flexibly used. Nonetheless, with so much of Singaporeans' savings currently tied up in their homes, the restoration will play a small but important part in helping people meet their retirement and medical needs in the future.

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