Singapore Central Provident Fund(CPF) Explained

In China, the "five insurances and one fund" system constitutes the social security benefits enjoyed by workers. Similarly, Singapore boasts one of Asia's most comprehensive and advanced CPF (Central Provident Fund) systems. CPF, which stands for Central Provident Fund, is a mandatory social security savings plan established by the Singaporean government for Singaporean citizens and permanent residents. It involves contributions from both employers and employees and helps meet the retirement, housing, and healthcare needs of Singapore residents.

So, what are the accounts within CPF, and what are their respective purposes? What are the contribution rates and interest rates for CPF? And what new changes can be expected in Singapore CPF contributions after 2024? In this issue, Jenga will bring you the latest detailed explanation of the Singapore CPF system.

01 CPF's 3+1 Accounts

Ordinary Account (OA)

The CPF Ordinary Account, abbreviated as OA, is primarily used for daily needs such as down payments for buying a house, repaying housing loans, and paying tuition fees.

Special Account (SA)

The CPF Special Account, abbreviated as SA, can only be used for retirement savings or invested in retirement-related financial products. Funds from this account can only be withdrawn after the age of 62. Due to the stable returns of around 4% to 5%, SA is considered a relatively high option among savings products in Singapore. Therefore, some young people who are not planning to purchase properties temporarily or those who do not use OA much may transfer some or all of the money from OA to SA to earn higher interest. However, it's important to note that funds from SA cannot be transferred back to OA.

Medisave Account (MA)

The CPF Medisave Account, abbreviated as MA, is used to purchase Medishield Life medical insurance after becoming a permanent resident. Individuals can also use it to pay for personal medical insurance premiums. Besides insurance, MA can be directly used to pay for personal medical expenses such as hospitalization or surgical costs within certain limits.

Additionally, in June 2018, CPF introduced the Medisave500 scheme, allowing PR/citizens to withdraw $500 annually from their MA to cover expenses related to chronic illness treatment, vaccination (such as hepatitis B vaccine), and health check-ups. You can search for "Medisave Medical Institution" or directly contact MOH to find out all medical institutions that support Medisave payments.

It's worth noting that MA can also be used to pay for relatives' insurance premiums, personal medical expenses, and medical expenses covered by the Medisave500 scheme. Relatives include spouses, children, parents, grandparents, and siblings.

Retirement Account (RA)

In addition to the three basic accounts mentioned above, Singapore has also introduced a Retirement Account (RA) specifically to safeguard the lives of elderly people. When citizens or permanent residents reach the age of 55, an RA account will be opened for them.

At that time, funds from CPF's OA and SA accounts will be automatically transferred to RA. Since funds in RA earn interest at a rate of 6% per annum, many people also choose to manually top up their RA accounts.

If, by the time Singaporean citizens and permanent residents reach the age of 65, their RA balance is at least $60,000, they will automatically join Singapore's national lifelong retirement savings plan—CPF LIFE (Lifelong Income For The Elderly). This plan provides retirees with a monthly income until their demise.

Desired Monthly Payout from 65	CPF LIFE Premium at 65 [Savings You Need at 65]	Savings You Need at 60	Savings You Need at 55
$350 - $370	$60,000	$45,800	$35,500
$540 - $570	$97,300	$76,000	$60,000
$770 - $830	$145,200	$115,400	$93,000
$960 - $1,030	$184,400	$147,600	$120,000
$1,430 - $1,530	$280,200	$226,300	$186,000
$1,520 - $1,640	$300,600	$243,000	$200,000
$2,080 - $2,230	$415,300	$337,300	$279,000

In addition to providing monthly income after retirement, RA funds can also be withdrawn to meet immediate cash needs. From the age of 55, individuals can withdraw up to $5,000. If the required basic retirement sum has been reserved in the retirement account, more cash can be withdrawn.

Furthermore, RA supports cash payouts for seniors aged 65 and above every three months. This is beneficial for those with low income and little or no family support in Singapore.

02 CPF Contribution Limits

The success of the CPF system lies in its mandatory savings mechanism. Through contributions from both employers and employees, the system ensures that workers save regularly throughout their careers, preparing for their future retirement life.

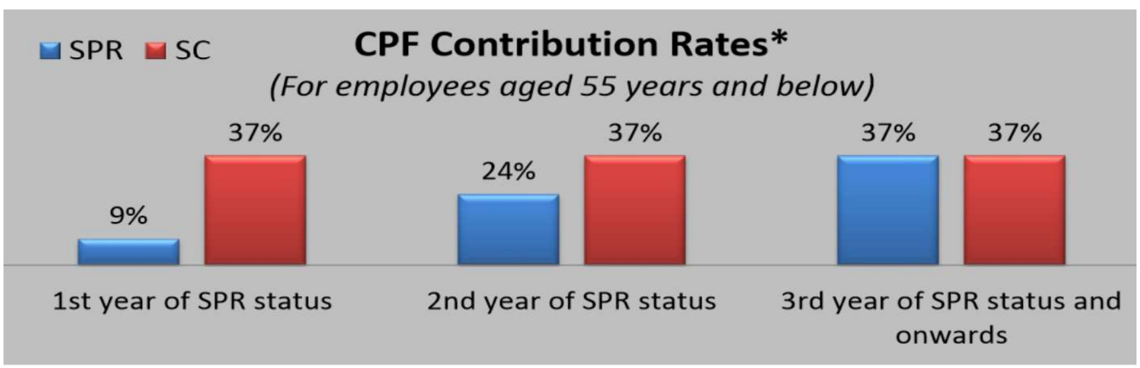
CPF contribution rates and amounts mainly depend on three factors concerning the employee:

1. Age
2. Employee's status—whether they are Singaporean citizens or permanent residents
3. Total wages

(1) Age: In theory, if an individual earns above $50 in labor income, the employer must contribute to the CPF for the employee, provided the employee is a Singaporean citizen or permanent resident. The contribution rates vary for individuals of different ages. Generally, for employees earning over $750, the employer contributes 17% and the employee contributes 20% until the age of 55. Starting January 2024, the CPF contribution rates for different age groups are as follows:

Employee's age (years)	Contribution rates from 1 January 2024 (for monthly wages > $750)		
	By employer (% of wage)	By employee (% of wage)	Total (% of wage)
55 and below	17	20	37
Above 55 to 60	15	16	31
Above 60 to 65	11.5	10.5	22
Above 65 to 70	9	7.5	16.5
Above 70	7.5	5	12.5

(2) Status: The total CPF contribution rates for the first two years after becoming a permanent resident (SPR) are 9% (employee 5%, employer 4%) and 24% (employee 15%, employer 9%), respectively. From the third year onwards, the rates are the same as those for citizens, at 37% (employee 20%, employer 17%):



* For total wages ≥$750 permonth

Additionally, the actual amounts allocated to the three accounts are determined by the number of years since becoming a PR, as a percentage of wages, as shown in the figure below:

	OA	SA	MA
1st year PR	5.6%	1.5%	1.9%
2nd year PR	14.9%	3.9%	5.2%
3rd year PR	23%	6%	8%

(3) Total Wages: Total Wages (TW) = Ordinary Wages (OW) + Additional Wages (AW)

Wage Type	Examples	Ceiling
Ordinary Wages (OW)	Monthly salary, food allowance etc.	OW Ceiling = $6,000 per month
Additional Wages (AW)	Annual bonus, leave pay etc.	AW Ceiling = $102,000 – Total OW subject to CPF for the year

(Before September 1, 2023, the monthly OW CPF ceiling was $6,000)

The current maximum annual salary ceiling for CPF contributions remains unchanged at $102,000, with the OW CPF ceiling raised from $6,000 to $6,300 after September 1, 2023. Starting from January 1, 2024, this ceiling will be further raised to $6,800, affecting individuals earning over $6,800 per month.

05 CPF Contribution Compliance

The Central Provident Fund Board conducts regular checks on employers to ensure they correctly contribute to employees' CPF accounts. This includes:

- On-site visits to workplaces, interviews with employees, and, if necessary, inspection of wage records.
- Reviewing employees' wage records—this includes checking all wage details, such as basic wages, overtime pay, allowances, bonuses, commissions, etc.

If an employer is found to have not paid or underpaid CPF contributions for employees, they will be required to pay the full amount owed, including all interest on overdue payments, and may also face fines.

<u>If an employer fails to pay CPF contributions on time or fails to pay CPF contributions for employees:</u>

The employer will receive a registered letter reminding them to pay CPF contributions, interest, and fines within the specified period. The latest date for CPF payment is the last day of each calendar month. If payment is not made within 14 days of the following month, enforcement action will be taken against them. Interest on overdue payments will be charged at 1.5% per month (starting from the second day after the due date, with a minimum interest of $5).

Therefore, companies must pay fixed percentage of their employees' monthly wages to the CPF account on time. Jenga can assist your company in applying for the establishment of CPF accounts and managing your employees' wages, providing a full range of salary services to ensure that your company's CPF contributions comply with the latest adjustment regulations, and ensure the compliance of your enterprise operation.