Raise withdrawal age for the young, gradually

By CHARISSA YONG

It may be time to raise the Central Provident Fund (CPF) withdrawal age of 55 for some, say several academics.

Never mind that when this was last proposed, in 1984, in that year's general election, the People's Action Party (PAP) suffered its worst vote swing to date - plunging 12.9 percentage points.

This time, experts suggest that the bitter pill can be sweetened by raising the withdrawal age only for younger people and in gradual doses, instead of all at once across the board.

This increase can be staggered by a regular number of years per cohort, said Lee Kuan Yew School of Public Policy associate dean Donald Low and his colleague, economist Hui Weng Tad, two panelists at a forum on Tuesday.

Life expectancy has risen three to four years for each decade since CPF began in 1955. Yet the withdrawal age has stayed at 55, noted Mr Low.

"Delaying the withdrawal age is reasonable even if unpopular," he argued. Otherwise, if the withdrawal age stays constant despite people living longer, the same amount of money withdrawn will have to last them longer.

"With a life expectancy of 85, you're going to spend as many years in retirement after 55 as you have already worked. That's how ridiculous 55 is in today's context."

Raising the withdrawal age will also give CPF members more time to accumulate savings for retirement, said NUS Business School professor Joseph Cheriai. But it would be politically unpopular.

Economist Augustine Tan - who was a PAP MP from 1970 to 1991 - said raising the Minimum Sum was "the next best thing" instead.

Today, people who do not meet the Minimum Sum can withdraw only $5,000 of their CPF savings when they hit 55. The rest of their savings can be taken out in monthly payouts only when they hit the drawdown age of between 60 and 65, according to their year of birth.

This persistent gap between the withdrawal age and the drawdown age is a pestering source of unhappiness, said Professor Hui.

The sum has also been raised in a short amount of time - from $80,000 in 2003 to $155,000 this year - to catch up with inflation.

This caused people to perceive the policy as inconsistent, and eroded some public trust in CPF, said Prof Hui.

The key to restoring trust is "to make such changes transparently and gradually with widespread public education, said experts.

Prof Hui proposed raising the withdrawal age by two years, only for those entering the labour force now. This is different from the 1984 proposal of raising the withdrawal age across the board, whether someone was a fresh graduate or nearing retirement.

He said: "For a person who is just entering the workforce, it doesn't matter as much because it is 40 years away. They say: 'Why would I worry about withdrawing money 40 years from now?'"

Prof Hui and Mr Low said that the Government in 1984 committed to increasing the withdrawal age by one year every three years, the age would be 65 this year. That is the current retirement age - "exactly where we want it to be", said Mr Low.

He noted that other countries in similar situations typically choose to delay the pension withdrawal age, or decrease pension benefits, like Sweden in the 1990s - which, however, went one step further and linked the size of its pension payouts automatically to increases in life expectancy.

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