Reflective journal of singapore budget 2012

In this year budget, there were two key changes initiated. An increase in CPF contribution and enhanced earn income relief. The boost in CPF contribution and the doubling of earned income relief are in line with the Singapore new goal, to help cope with the social and rising cost for the aging population that Singapore is currently facing. Further studies suggest that elderly, depending on solely CPF saving for retirement is not sufficient. Boost in CPF contribution The government worry that elderly will not be able to support them after retirement.

Therefore, the government has implemented a new boost in CPF contribution for employees aged above 55 years old and they will be classified according to their aged group. Employee earning an annual income of $75000 and is above aged 55 would realize tax saving of over 11%. But given that in dollar term, this translates into only a $252 per year saving. The cost of living in Singapore is increasing due to inflation and economic growth. Hence, a saving of $252 per year saving will not convince older workers to retire. This amount is for a person earning $75000 annually.

However, elderly who are low-income workers will face much more difficulties. Since most of them are less educated, many of them will find it hard to save for their retirement as they lack the knowledge of investing their money and will normally keep their saving in the bank earning an interest rate of about 0. 05%. This interest earned will not be sufficient to curb the inflation rate of 5. 2% according the department of statistic Singapore. Thus, a $252 saving per year, $21 per month saving is so meager that they could not even afford a proper meal in the market for a month.

However there are other factors to be considered, such as their dependent which also include their family or children, financial and social help available for them. Recently, the Central Provident Fund Board (CPF) extend its 4% annual interest rate for Special, Medisave and Retirement Account (SMRA) holders for another due to the poor economic and this will be extended til December 31st, 2013. After December 2013, The Singapore Government Securities (SGS) will change the SMRA rates to the 12-month average yield of 10-year plus one per cent.

The current yield for a 10-year SGS with a coupon of 3. 25 per cent expiring in September 2022 stands at 1. 439 per cent. With the four per cent minimum extension, the first S$60, 000 of a member's combined balances in SMRA will continue to earn a five per cent interest rate. Earned income tax relief The earn income tax relief are mainly cater for employees above the age of 55. Their tax relief will increase from $3000 to $6000. Employees aged 60 and above, the amount will increase from $4000 to $8000. This is to help boost and assist elderly employees to save for their retirement by decreasing their chargeable income for tax payable.

Supplementary Retirement scheme The government to provide financial assistance for the aging population in Singapore introduces the Supplementary Retirement scheme. This scheme is make to go together with the Central Provident Fund Board savings. The Central Provident Fund Board saving can be used for basic needs, housing or medical needs at retirement. The difference between this Supplementary Retirement Scheme and Central Provident Fund scheme are Supplementary Retirement Scheme is a voluntary scheme while the Central Provident Fund Scheme is a compulsory scheme in Singapore.

The Supplementary Retirement scheme benefits are investment returns are accumulated and tax free and only 50% of the withdrawal is taxable. It is also eligible for tax relief where every dollar contributed to the scheme will decrease income chargeable by a dollar. This scheme will help the lower income to elderly to save more, as their income chargeable will decrease and every dollar gain in the Supplementary retirement Scheme is tax exempted. With effect from 1st October 2008, the employer can also contribute to the employee’s Supplementary Retirement Scheme account with the written notice of the employee.

Conclusion Although there is a boost in the Central Provident Fund scheme, the amount in dollar term is rather meager to actually entice or even allow the elderly to retire from the workforce. Especially the cost of living in Singapore is increasing. This situation will compel elderly workers to continue working to help maintain their basic needs and lodging. The doubled amount of income tax relief is vital as it help offset a substantial amount of chargeable income for the elderly along with other deduction scheme available such as spouse relief and etc.

In return this actually provides incentive for elderly to continue working as they are now eligible for a high income tax relief, which also means paying less income tax. The Central Provident Fund Board could have relooked into their policy to help the elderly. For example they could have allowed more tax deduction or tax-free withdrawal for making voluntary CPF contribution or updating their Supplementary Retirement Scheme. This can help encourage Singaporean to save up regularly for retirement while encouraging individuals to be responsible for their own future by choosing to save voluntary.

The Supplementary Retirement Scheme should be promoted to the public aggressively to emphasize on the importance and benefit of this scheme. As our team believes that this scheme will actually help to solve the root of all problems, which is to encourage self-sufficiency and not to depend on the government aids all the time. However this will prove to be a very challenging process as the public have to be updated and understand on the benefit of this scheme and how this scheme can help them with their retirement.