

## INFORMATION NOTE

### Parliamentary Retirement Schemes of Singapore

#### 1. Background

1.1 The subcommittee on Members' Remuneration and Operation Expenses requested the Research and Library Services Division to conduct a research into overseas practice regarding pension arrangements for legislators. This information note presents a summary of the existing two parliamentary pension schemes in Singapore.

1.2 In this information note, the average 12-month effective exchange rate in 2000 between the Singapore and the Hong Kong Dollar of S\$1=HK\$4.5 is adopted.<sup>1</sup>

#### 2. History

2.1 In 1969, the first Parliamentary Pensions Act was passed in recognition of the fact that MPs had devoted a considerable portion of their working lives to public service.<sup>2</sup> In 1978, a new Parliamentary Pensions Act was passed to make corrections to the 1969 Act and to “make the terms and conditions of service for Members and office-holders sufficiently attractive for the ablest and best to enter Parliament and to take office.”<sup>3</sup>

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<sup>1</sup> Hong Kong Special Administrative Region Government, Census and Statistics Department, *Hong Kong Monthly Digest of Statistics, March 2001*, p. 125, Table 7.12.

<sup>2</sup> *Parliamentary Debates*, Parliament of Singapore, 11 June 1969, page 17-18.

<sup>3</sup> *Parliamentary Debates*, Parliament of Singapore, Column: 1612, 31 July 1978.

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2.2 In 1995 the Parliament passed the Parliamentary Pensions (Amendment) Act 1995 which put all new Members of Parliament (MPs) on the Central Provident Fund (CPF) scheme. In the parliamentary debate, the Deputy Prime Minister gave the following reasons for this change:<sup>4</sup>

- pension carried over from the civil service did not fit the circumstances of service as an MP;
- increasingly MPs were persons with careers and professions of their own; and
- the CPF scheme was the national superannuation scheme. All public officers, except those in the Designated Services,<sup>5</sup> were appointed on the CPF scheme.

2.3 A summary of the historical development of the parliamentary pensions scheme is in Appendix I.

2.4 Under the Parliamentary Pensions (Amendment) Act 1995, Members, (a) first-elected or appointed on or after 1<sup>st</sup> January 1995; (b) elected or appointed after a break in service after that date; and (c) who cease to be elected Members on or after 1<sup>st</sup> January 1995 will not be eligible for a pension and will go on to CPF on and after 1<sup>st</sup> January 1995.

2.5 Under the same Act, serving elected MPs who had no less than 9 years' reckonable service on 1<sup>st</sup> January 1995 have the option to switch to the CPF scheme or to remain on the Parliamentary Pensions Scheme. If they opted for the CPF, any pension benefits they had already qualified for would be frozen. Those with insufficient service to qualify for pensions would not be compensated for converting to the CPF.<sup>6</sup> A brief summary of the Parliamentary Pensions Scheme is in Appendix II.

2.6 At present, all MPs are either under the Parliamentary Pensions Scheme or the CPF.<sup>7</sup> New MPs must go on to the CPF.

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<sup>4</sup> *Parliamentary Debates*, Parliament of Singapore, Column: 1078, 23 March 1995

<sup>5</sup> Designated Services are the Administrative Service (Foreign Service Branch), the SAF (Senior) Service, the Police (Senior) Service and the Intelligence Service. *Parliamentary Debates*, Parliament of Singapore, Column: 1079, 23 March 1995.

<sup>6</sup> *Parliamentary Debates*, Parliament of Singapore, Column: 1079, 23 March 1995.

<sup>7</sup> Questions were sent to the Singapore Parliament on the number of MPs who join the Parliamentary Pensions Scheme and the CPF and we received no reply as of the date of the publication of this report. Explanatory Statement of the Parliamentary Pensions (Amendment) Bill 1995. *Parliamentary Debates*, Parliament of Singapore, 23 March 1995.

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### **3. An Overview of the Central Provident Fund**

3.1 The Central Provident Fund was set up in 1955 to provide financial security for workers in their retirement or when they are no longer able to work.<sup>8</sup> Members of Parliament who go on to the CPF will become members of the CPF.<sup>9</sup> Although the CPF covers a whole range of social security benefits, only matters relating to retirement will be discussed in the following paragraphs and MPs in the following paragraphs refer to those defined in paragraph 2.4 only.

3.2 The terms and contributions applicable to MPs in the CPF are the same as those for other CPF members.

#### Sources and Amount of Contributions

3.3 Both Members of Parliament (or "CPF members" hereafter) and the Government (employer) contribute monthly to the CPF. CPF contributions go into three accounts:

- Special Account - for old age, contingency purposes and investment in retirement-related financial products;
- Medisave Account - the savings can be used for hospitalization expenses and approved medical insurance; and
- Ordinary Account - the savings can be used to buy a home, pay for insurance and for investment and education.

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<sup>8</sup> Over the years, the CPF has evolved into a comprehensive social-security savings scheme, which not only takes care of a member's retirement, home ownership and healthcare needs, but also provides financial protection to CPF members and their families through its insurance scheme. Homepage of Central Provident Fund, <http://www.cpf.gov.sg/>.

<sup>9</sup> Questions were sent to the Singapore Parliament to confirm the details and arrangements of a MP under the CPF and we received no reply as of the date of the publication of this report.

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3.4 From 1<sup>st</sup> January 2001 the contribution rates are as follows:

**Table 1 – The CPF Contribution Rates:**

Age group	Contribution (% of salary)			Credited into...		
	Government	MP	Total	Ordinary Account	Special Account	Medisave Account
35 years & below	16	20	36	26	4	6
Above 35 to 45 years	16	20	36	23	6	7
Above 45 to 55 years	16	20	36	22	6	8
Above 55 to 60 years	6	12.5	18.5	10.5	0	8
Above 60 to 65 years	3.5	7.5	11	2.5	0	8.5
Above 65 years	3.5	5	8.5	0	0	8.5

3.5 MPs can invest savings in Ordinary Account and Special Account in approved financial instruments for higher returns.<sup>10</sup>

#### CPF Interest Rates

3.6 The CPF Act guarantees members interest at a minimum rate of 2.5% per annum; however, the actual rate is based on the interest rate of the 12-month fixed deposit and month-end deposit rates of four major banks and it is revised quarterly. Savings in the Special Account is risk-free and tax-free, and earns 1.5% more than the Ordinary Account saving, which means a minimum interest of 4% per annum.

<sup>10</sup> Please refer to the following website for the details of approved financial instruments: [http://www.cpf.gov.sg/cpf\\_info/Publication/finsec.asp/](http://www.cpf.gov.sg/cpf_info/Publication/finsec.asp/).

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## Benefits

### *Age*

3.7 MPs who turn 55 years can withdraw their CPF savings in a lump sum after setting aside a Minimum Sum in the Retirement Account. When they turn 62, they will start to receive their monthly payments from this Retirement Account. Please refer to paragraph 3.8 for details.

### *Monthly Payment: Minimum Sum Scheme*

3.8 The "Minimum Sum" will provide MPs with a regular monthly income from the retirement age of 62. At present, the Minimum Sum is S\$65,000 [HK\$292,500].<sup>11</sup> MPs have three options to invest their Minimum Sum:

- (a) buy a life annuity from an approved insurance company;
- (b) keep it with an approved bank; or
- (c) leave it with the CPF Board.

3.9 If a MP buys a life annuity, he will get a monthly income for life. If he leaves the money with an approved bank or the CPF Board, he will get a monthly income until his Minimum Sum is exhausted. Monthly income from the Minimum Sum investment is tax free.

### *Withdrawal in Lump Sum*

3.10 MPs can withdraw their CPF in a lump sum after setting aside a Minimum Sum in their Retirement Account, which is separate from the three accounts of CPF. They can withdraw their savings upon:<sup>12</sup>

- (a) reaching 55;
- (b) leaving Singapore and West Malaysia; or
- (c) becoming permanently disabled or of unsound mind.

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<sup>11</sup> The Minimum Sum will be increased by S\$5,000 [HK\$22,500] a year until it reaches S\$80,000 [HK\$360,000] in 2003. *Handbook: Minimum Sum Scheme*, CPF Board, 14 April 2001. Please refer to the following website for the details of Minimum Sum Scheme: [http://www.cpf.gov.sg/cpf\\_info/Publication/minsum.asp](http://www.cpf.gov.sg/cpf_info/Publication/minsum.asp).

<sup>12</sup> Singapore 2000, Ministry of Information and The Arts, 1999.

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3.11 If they continue working, members can make further CPF withdrawals every three years - at ages 58 61 and 64 and so on.

3.12 MPs can withdraw at least half the balance in their Ordinary and Special Accounts at 55. But if they have S\$5,000 [HK\$22,500] or less, they can withdraw everything.<sup>13</sup>

### Benefits for Survivors

3.13 A MP has to nominate the beneficiaries of his CPF savings. Upon death, the savings will be distributed according to the nomination. If the MP has not made any nomination, the CPF Board will transfer his CPF savings to the Public Trustee for distribution in accordance with the written law.<sup>14</sup>

### Other Provisions

#### *Topping-up of the Minimum Sum*

3.14 MPs may top up their parents' and spouses' Retirement Accounts (see para. 3.7 & 3.8) through cash deposits or transfer of CPF savings. They may also top up their own or their grandparents' Retirement Accounts using cash. They can also enjoy a tax relief of up to S\$6,000 [HK\$27,000] per year when they top up their grandparents' account.

#### *Earn Higher Interest Through Transfer of Ordinary Account Savings to Special Account*

3.15 MPs below 55 years of age may transfer their Ordinary Account savings to top-up their Special Account to the prevailing Minimum Sum. The transfer enables MPs to build up more cash savings for retirement, and at the same time, enjoy the higher rate for the Special Account (see para. 3.6 above).

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<sup>13</sup> If CPF members reach 55 and do not have the Minimum Sum required - shortfall, they still can withdraw at least half their CPF Ordinary and Special Account savings or S\$5,000 [HK\$22,500], whichever is higher at age 55. Subsequently, up to half their new contributions, voluntary contributions, government top-ups and other refunds received after age 55 will be used to make up the shortfall. *Handbook: Minimum Sum Scheme*, CPF Board, 14 April 2001

<sup>14</sup> The Public Trustee is a person appointed by the government to manage the deceased's estate. He ensures that the CPF monies of the deceased who did not have a nomination or a valid nomination is distributed to the rightful beneficiaries. *Handbooks: CPF Nomination*, CPF Board, December 2000.

#### 4. Analysis: Reference for Hong Kong

##### *Lessons from the Singapore Experience*

4.1 The following characteristics of the development of the parliamentary pensions schemes in Singapore are worthy of consideration:

- Members of Parliament are considered to have a right of retirement protection after having spent a considerable portion of their working lives rendering public service;
- The availability of a national superannuation scheme to MPs; and
- Attention should be paid to the issue of unfairness to MPs who, on transfer from the former parliamentary pension scheme to the CPF, may have suffered financially as a result of their different lengths of reckonable service and dates of entering the Parliament.

##### *Reference for Hong Kong*

4.2 If Hong Kong were to consider setting up a retirement scheme for Legislative Council Members, the following matters might need to be addressed:

- Do Legislative Council Members have a right to retirement protection?
- Should the Mandatory Provident Fund Scheme be extended to cover Legislative Council Members?

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**Appendix I****Outline of the Historical Development of the  
Parliamentary Pensions Scheme for Singapore since 1969***1969-1995*Parliamentary Pensions Act 1969

1. A Parliamentary Pensions Bill was passed on 11 June 1969. In the parliamentary debate the Minister of Finance stated:
  - *"[to provide] for pensions who render public service such as Members of Parliament ... in their latter years [when] they have devoted a considerable portion of their working lives to such service. ... We cannot expect to get future leaders of calibre on the cheap. ... Singaporeans ... must not believe they can continue to expect men of ability in future to suffer severe financial sacrifices in pursuit of a hazardous political career. ..."*<sup>15</sup>

Parliamentary Pensions Act 1978

2. In 1978, a new Parliamentary Pensions Act was passed in order to remove defects and anomalies in the 1969 Act and to "make the terms and conditions of service for Members and office-holders sufficiently attractive for the ablest and best to enter Parliament and to take office."<sup>16</sup>
3. The 1978 Act had the following, amongst others, changes to the 1969 Act:
  - a new formula treating service as Member and service as an office-holder as separate and distinct (pension payable to an office-holding Member would be raised to 1/27<sup>th</sup> of his annual salary, while Members of Parliament would remain at 1/30<sup>th</sup>); and
  - to fix the qualifying age for all Members of Parliament, be he a Member or an office-holder, at 50 years of age under the new scheme (it was 45 years under the 1969 Act).

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<sup>15</sup> *Parliamentary Debates*, Parliament of Singapore, 11 June 1969, page 17-18.

<sup>16</sup> *Parliamentary Debates*, Parliament of Singapore, Column: 1612, 31 July 1978.

4. Though the 1969 Act was repealed, the rights of former Members of Parliament who were already in receipt of a pension would be preserved. Also, Members who had already become eligible for the grant of a pension under the 1969 Act, if they retire or cease to be members before the date of enactment of the new Act, they would still be entitled to the old pension scheme. However, other Members would not be given the option to remain in the old pension scheme under the new Act.<sup>17</sup>

*1995 - present*

Parliamentary Pensions (Amendment) Act 1995

5. In March 1995 the Parliamentary Pensions (Amendment) Act was passed to place all new Members of Parliament on the Central Provident Fund (CPF) scheme.

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<sup>17</sup> *Parliamentary Debates*, Parliament of Singapore, Column: 1614, 31 July 1978.

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## Appendix II

**Parliamentary Pensions arrangements for Members of Parliament who have not less than 9 years' reckonable service on 1<sup>st</sup> January 1995**

1. Retirement age	50 years.
2. Reckonable service requirement	Not less than 9 years' reckonable service as a Member (whether continuously or not) on 1 <sup>st</sup> January 1995.
3. Annual pension payable	Every completed year of reckonable service, at the rate of 1/30 of his annual salary. Any remaining uncompleted year of reckonable service, at the rate of 1/360 part of his annual salary for each completed month of reckonable service.
4. Annual salary	Annual equivalent of the highest monthly rate of salary (excluding any non-pensionable allowances) received by a Member during any period of his service as a Member prior to 1 <sup>st</sup> January 1995.
5. Maximum annual pension payable	2/3 of annual salary.
6. Death before retirement	(a) Commuted pension gratuity that might have been granted to the person on his attaining the age of 50 years had he not died (with 5% annual discount rate); or (b) an amount equal to his annual salary, whichever is the greater.
7. Ill health early retirement	(a) a full pension as above without any gratuity; or (b) the commuted pension gratuity that might have been granted to the person under these Regulations on his attaining the age of 50 years.
8. Option for pension or gratuity or both	(a) the full pension without any gratuity; (b) a reduced pension at the rate of 2/3 of the full pension together with a gratuity equal to 12½ times the annual value of 1/3 of the full pension; or (c) a commuted pension gratuity without any pension. (commuted pension gratuity equals to 175.14 times the amount of pension)

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**References**

1. *Handbook: Building Our Future*, CPF Board, 2001.
2. *Handbook: Changes to Enhance Your Financial Identity*, CPF Board, 9 November, 2000.
3. *Handbook: I am retiring and I would still like a monthly income for life. How do I do that?* A 'Life Insurance Association' publication, CPF Board, 16 October, 2000.
4. *Handbook: Minimum Sum Scheme*, CPF Board, 14 April, 2001.
5. *Handbook: Transfer of Ordinary Account Savings to Special Account*, CPF Board, 5 April, 2001.
6. *Handbook: You've just got your new Identity Card. What's next? Your CPF*, CPF Board, 25 November, 1999.
7. *Handbooks: CPF Nomination*, CPFund Board, 7 December, 2000.
8. *Parliamentary Debates*, Parliament of Singapore, 11 June 1969.
9. *Parliamentary Debates*, Parliament of Singapore, 23 March 1995.
10. *Parliamentary Debates*, Parliament of Singapore, 31 August 1982.
11. *Parliamentary Debates*, Parliament of Singapore, 31 July 1978.
12. *Parliamentary Debates*, Parliament of Singapore, 31 October 1985.
13. *Parliamentary Pensions (Commutated Pension Gratuity) Regulations, Cap. 219, Regulation 2.*
14. *Parliamentary Pensions (Conversion to the Central Provident Fund Scheme) Regulations, Cap. 219, Regulation 3.*
15. *Parliamentary Pensions (Pensionable Allowances) Regulations, Cap. 219, Regulation 1.*
16. *Parliamentary Pensions Act, Cap. 219.*
17. *Parliamentary Pensions Bill 1969 (Bill No. 8/69) (with the Explanatory Statement).*
18. *Singapore 2000*, Ministry of Information and The Arts, 1999.
19. *The Explanatory Statement of the Parliamentary Pensions (Amendment) Bill 1995 (Bill No. 7/95).*
20. Wang Hui Ling, "New MPs may not get pension but may have full CPF benefit," *Straits Times*, 3 March 1995.

**Websites:**

1. Homepage of Central Provident Fund, <http://www.cpf.gov.sg/>
2. The Parliament of Singapore - Homepage, <http://www.gov.sg/parliament/>

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