

Keynote Address at Economic Society of Singapore Annual Dinner 2019

Minister for Manpower and Second Minister for Home Affairs, Mrs Josephine Teo,
Mandarin Orchard Singapore

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Colleagues and friends

1. Good evening and thank you for inviting me. Time is somewhat limited, so I hope you don't mind that we go straight to the point.
2. In the days leading up to this dinner, there were two major sets of announcements that would be of interest to you:
 - Our short-term economic outlook
 - Our medium and longer-term plans for older workers.

Our Economic Outlook

3. Last week, MTI adjusted our GDP growth forecast for 2019. From "1.5% - 2.5%" previously, it is now "0% - 1%".
4. The revised forecast takes into account:
 - Singapore's economic performance in the first half of the year,
 - and the increasingly uncertain external environment.
5. At Sunday's National Day Rally, Prime Minister gave the Government's assessment of our economic situation. I shall not repeat everything he said but will instead highlight a few points, putting on my Manpower hat:
 - So far, retrenchments have remained at low levels;
 - Unemployment has inched upwards but also remained low.
 - For now, it appears that businesses are not trimming headcounts across-the-board but are certainly more cautious with hiring.
6. This assessment is consonant with what some of you have also told me.
 - Song Seng Wun, for example, has seen a lot over the years and thinks this round is quite interesting how some sectors seem to be going really well even if a few are under water.
 - It's clearly not a general downturn.
7. Indeed, while the uncertainties and risks have grown, there are some reasons for cheer.
 - The long-term fundamentals of our economy, such as a pro-business environment and strong connectivity with the rest of the world, remain sound.

- We continue to attract a pipeline of good investments into Singapore.
 - The bright spots include the ICT, finance and insurance sectors which are projected to remain healthy.
 - According to a recent survey by the Singapore FinTech Association (SFA) and PwC Singapore, about 94% of fintech firms in Singapore intend to expand their current workforce within the next 12 months.
8. Therefore, there's no stimulus package as yet but we will be monitoring these developments very closely.
- As Barnabas Gan reminded me, there can be unknown unknowns i.e. surprises that we had not anticipated.
 - Some humility is helpful here.
9. In the medium to longer-term, there is no question that structural change is needed.
- Irvin Seah therefore believes Government's interventions should not respond purely or even primarily to cyclical weakness.
 - I agree.
10. In particular, we should be mindful of the pressures faced by SMEs and continue to offer practical help.
- Where we have to make policy adjustments for our medium- and longer-term interests, we should phase in the changes and take them in small steps.
 - Support schemes should also be readily available to the businesses that are making the effort to restructure, build new capabilities, and reskill our people.

Support for Older Workers

11. One group, I believe, deserves closer attention. They are our older workers.
12. In preparing for tonight's event, I did some research and found that for the Economic Society's Annual Dinner in 2016, then-DPM Tharman had also focused on our seniors and our system of social security, how our approach is similar to other countries and yet unique.
13. Two important pillars of our system of social security are CPF and Workfare.
- Both help workers save for housing, healthcare and retirement.
 - But the workers don't do it alone; employers contribute, and so does the Government.
14. Our workers are however, ageing. In the next decade, Singapore will experience its most significant demographic shift of our generation.
- Around half a million citizens will turn 65 over the next ten years – that's around 50k every year.
 - By 2030, we expect the citizen population aged 65 and above to nearly double to 900k.
 - Many of these citizens, even if not all, want the option to continue working.
 - It helps them stay meaningfully engaged and to build up more savings to be financially independent when they eventually retire.

15. This is the reason why, around May last year, I set up a Tripartite Workgroup to strengthen support for older workers. Specifically, I asked the Workgroup to
- Review the longer-term relevance of and consider the next moves for the Retirement Age and Re-employment Age;
 - Examine the CPF contribution rates for older workers and their impact on retirement adequacy; and
 - Promote an inclusive workforce and progressive workplaces that value older workers.
16. After a year of work, the Tripartite Workgroup came to a consensus and put forward 22 recommendations, which the Government has accepted in full.
17. What were the key issues debated? Do the recommendations go far enough or have they gone too far?
18. Before I go into the nuts and bolts, let me extract from the vision articulated by the Workgroup when presenting their recommendations:

“Our vision is to achieve productive longevity in Singapore.

Our seniors can fulfil their aspirations to work for as long as they wish while contributing meaningfully to a vibrant economy.

Our collective efforts will turn our ageing population into inclusive and dynamic workforce, transform our businesses into progressive and productive enterprises, and build a Singapore where older workers can thrive in the future economy.”

19. This is an interesting vision that got me thinking.
- Is productive longevity an economic vision?
 - It also sounds like a social vision?
 - Or perhaps it is a political vision?
20. I have some thoughts about it but I shall leave them to the end.

Continued Relevance of the Retirement and Re-employment Model

21. I should firstly deal with two common misunderstandings about the statutory retirement age.
- Some people believe if there is no law specifying a retirement age, everyone can work for as long as they wish.
 - I’m afraid that this is plain wishful thinking.
22. Before 1993, there was in fact no legislated Retirement Age.
- This meant that an employer could retire any worker at any age. At that time, companies typically retired their workers at age 55.
 - In 1988, the Government encouraged employers and unions to voluntarily raise their company-specific retirement ages from the norm of 55 to 60. However, only about 10% did.
23. The Retirement Age Act was therefore introduced in 1993 to legislate a Retirement Age of 60.

- The legal effect of stipulating a Retirement Age in law is that an employer cannot retire or dismiss a worker simply because the worker has reached a certain age, if the worker is below the Retirement Age.
 - In 1999, the statutory Retirement Age was raised to 62.
24. Essentially, the Retirement Age Act prevents employers from prematurely dismissing an older worker because of age.
- It provides legal protection for our older workers.
 - But it does not take away an older worker's freedom to stop working any time he or she wishes.
25. The "abolitionists" may not have realised that when the statutory Retirement Age is removed, so too the employer's legal obligation. We will then regress back to the days before 1993.
26. Today, even though we see employers being more receptive to hiring and keeping older workers, ageism has not disappeared. This is why union representatives have always called for the statutory Retirement Age to be raised, not removed.
27. But besides looking out for our workers, we must also balance it against employers' needs.
28. In 2005, the tripartite partners explored how to help people work beyond 62.
- A simple way would be to raise the Retirement Age further.
 - However, given that the seniority-based wage system was still very much practised then, doing so would impact business costs and productivity.
 - The effect might then have been the opposite i.e. to deter employers from hiring older workers.
29. The concept of re-employment was then considered.
- This model was pioneered in Japan.
 - It obliges employers to offer re-employment contracts to eligible older workers who have reached the retirement age.
 - At the same time, it gives employers flexibility to make reasonable adjustments to the job scope, wages and other employment terms.
 - In other words, after reaching the Retirement Age, the worker would be offered a job, but not necessarily the same job or the same pay.
30. Announced in 2007, re-employment was subsequently legislated in 2012.
- Employers then were required to offer annual re-employment to eligible employees from 62 up to the Re-employment Age of 65.
 - In 2017, the Re-employment Age was raised to 67.
31. What is the effect of re-employment on employers?
- It allays concerns over labour market rigidity and being bound to overly high manpower costs.
 - Extending the employment of older workers beyond their Retirement Age is more sustainable.
32. This combination of having a statutory retirement age and a re-employment age has worked reasonably well for us.
- Well over 90% of workers who are eligible for re-employment and who wish to continue working are offered re-employment upon reaching the current retirement age of 62.

- From 2008 to 2018, employment rates increased by about 10% for both residents in the 55 to 64 age group and those who are older.
33. This is why the Tripartite Workgroup recommended keeping both the Retirement Age and Re-employment Age.
34. It also recommended raising both by three years to maintain the balance between assurance for workers and flexibility for employers.
35. Why three years, and not more or less?
- Well, in the years since 1999 when the retirement age was last raised to 62, the healthy life expectancy has also gone up by just over three years.
 - Therefore, in July 2022, the Retirement Age will go up from 62 to 63 while the Re-employment Age will go up from 67 to 68.
 - Eventually, by 2030, the Retirement Age will go up to 65 while the Re-employment Age will go up to 70.
36. This brings me to the second common misunderstanding.
- Some people think they MUST work till they reach the retirement or re-employment age.
 - As a result, when these are raised, they think they are being forced to work longer.
 - In fact, they are mistaken.
37. In some countries, the retirement age is also the age for pension withdrawal.
38. Naturally, in these countries, people expect to work up to the retirement age, because the pensions don't start till then.
39. But in Singapore, our CPF withdrawal age is NOT tied to the retirement or re-employment age.
- At age 55, CPF members get to withdraw part of their savings.
 - At age 65, members can start to receive their remaining savings in monthly payouts.
 - People can and do choose to stop working before they reach the retirement or re-employment age.

Necessity of Tapering Older Worker CPF Contribution Rates

40. Let me turn now to the question of the CPF contribution rates.
41. Specifically, is it still necessary to taper down the CPF contribution rates, beyond a certain age? Why not let everyone enjoy the same contribution rates, regardless of age?
42. The Institute of Policy Studies (IPS) made such a call recently for full equalisation of all older workers' CPF contribution rates with that of younger workers. Their reason is a valid one – it would boost retirement savings more.
43. Again, some history is instructive.
44. In 1955 when CPF was started, contributions rates did not in fact depend on a member's age.
45. It was only in 1988, more than three decades after inception, that CPF contribution rates for older workers were lowered and tiered.
- At the time, it was commonplace for wages to be based on length of service with an employer.

- Older workers who had served the company for many years tended to be paid a higher salary than their younger peers, not necessarily because they had bigger jobs or better performance.
 - Salary was mostly a matter of seniority.
46. The reduction in CPF contribution rates back then helped employers manage the costs of retaining older workers.
- In other words, lower CPF contribution rates were to offset the high wage costs of older workers.
 - It was a measure to safeguard their employability.
47. Over the years, as we shifted away from seniority-based wages towards performance-based wages, and as the employability of older workers improved, contribution rates for older workers have been adjusted upwards.
- They now taper down from age 55 instead of 50 previously.
 - Employability has however been kept up.
48. The Workgroup therefore recommended that rates can be gradually raised so that in future, they start to taper only from age 60.
- The first increase in CPF contribution rates for those aged 55 and above is modest (0.5%-pt to 1%-pt each for employers and employees), and will start on 1 January 2021.
49. But full equalisation beyond age 60 will carry considerable risks.
- Today, a 70-year-old worker contributes 12.5%.
 - Fully equalising his contribution rate to that of younger workers would require a substantial increase of 24.5%-pts to 37%.
 - Where will this 24.5%-pts come from? It will be 15%-pt from the worker and 9.5%-pt from the employer.
 - This means for the worker, 15% less in take-home pay, and for the employer 9.5% increase in wage cost.
50. Of course, the increase can also be made gradual.
- In fact, the Workgroup recommends that each move should not require employers or employees to contribute more than 1%-pt extra.
 - Successive moves should also be spread out over ten years at least, stretching beyond 2030 if necessary.
51. But even if we assume a smooth and gradual transition, it is hard to imagine that an employer sees no difference in the work capacity of an employee aged 60 compared to another who is 70. Realistically, when we stretch out working lives, the work capacities at the upper end of the age spectrum is bound to disperse and become more varied.
- The employer would account for these differences by adjusting their total wages – which comprises salary and CPF contributions.
 - If the CPF contribution rate is not lower for older workers i.e. it is fully equalised like before, then the employer would make the adjustment through the salary, or he finds ways to let older workers go earlier.
 - A tapering down of CPF contribution rates after age 60 is therefore a practical way of helping both the employer and the worker.

A Calibrated Pace of Change

52. Given the concerns over the economy, let me say something about the pace of change. Is it too aggressive?
53. In fact, only the first two moves have been pinned down – on 1 January 2021 for the CPF rate hike, and on 1 July 2022 for the retirement and re-employment age.
54. The remaining moves will be a matter for tripartite consultation which can take into account the evolving economic landscape and provide ample notice.
55. On the flipside, there are also some who take the view that Workgroup could have introduced quicker and bolder moves. For example, IPS had proposed that we index the Retirement and Re-employment Ages to Health Adjusted Life Expectancy (HALE) instead.
- Based on their suggested model, the re-employment age in 2029 would be indexed to the HALE of Singaporeans today, which is about 74 years old.
 - This would be four years above our target Re-employment Age of 70 in 2030.
56. HALE is undoubtedly a useful reference point. But for the proposed shifts to be workable, there's equally the need to account for other factors such as economic and labour market conditions.
- Denmark and the Netherlands have linked their retirement age to improvements in life expectancy via a formula.
 - From their experience, it has led to pushback due to worries about the overly fast pace of increase in the retirement age, and whether it was applicable to all categories of workers.
 - Learning from this, it would be better for Singapore to continue to rely on tripartite discussions and consultations across society at least for now.

Our Vision of Productive Longevity

57. I have spent some time unpacking the thinking behind the key recommendations of the Tripartite Workgroup on Older Workers. I hope they are helpful to you and also provides a better understanding of
- Singapore's approach to senior employment,
 - The unique retirement and re-employment framework here
 - As well as the tripartite approach to balancing workers' and employers' interests.
58. I promised you near the beginning to share what I thought about the Workgroup's vision of "productive longevity" for Singapore. Is "productive longevity" an economic, social, or political vision?
59. It is quite clearly an economic vision.
60. Using this lens, we see the growing pool of older workers as a resource which businesses can tap.
- This can potentially bring some relief to a tight labour market
 - Help employers better meet their manpower needs.
61. For the individual, work produces income and improves retirement adequacy.
62. But "productive longevity" is also a social vision.

63. Work is often an integral part of a person's identity, and provides a natural community to be part of.
- The world of work is also where individuals of diverse backgrounds, ethnicities and ages, come together for common cause.
 - The engagement, relationships, and sense of purpose derived from work contributes to the health of our older workers.
 - A longitudinal study by Duke-NUS Medical School's Centre for Ageing Research and Education (CARE) found that older Singaporeans who continued to work generally fared better in terms of psychological, physical, and functional health than those who had retired.
64. Former Vice President of the Singapore National Employers Federation (SNEF), Ms Goh Swee Chen, found a nexus between the economic and social visions.

"From a business perspective, you can only prosper if there is stability in the society, if there is cohesion and inclusion in the society. rather than thinking about age as a problem, from a business perspective, it is really a benefit that we could extend, a precious resource here in Singapore."<

65. For me personally, "productive longevity" is equally a political vision.
66. It is a political choice to treat our ageing workforce as an opportunity and not a burden, to enable our people to contribute as long as they wish.
- As a result, we allocate resources and update policy to support this choice.
 - Since 2011, we have paid out some \$3b in Special Employment Credit to employers to support their employment of older workers.
 - Two thirds of Workfare recipients are above the age of 50 and half above age 65.
67. It is also part of our political values to share the effort required.
68. We are expecting employers to do their part to develop inclusive workforces and progressive workplaces.
- For example, physically demanding jobs may need to be redesigned to reduce the strain on older workers.
 - They may also need to cater to some older workers' desire to work lower intensity at this phase of their lives.
69. I must stress however that it is not only employers who must adjust.
- Workers must be willing to reskill and move into new roles.
 - They accept that beyond a certain age, the terms and conditions of employment may change to relief cost pressures on employers.
 - They must also participate in helping their employers transform to stay competitive.
70. Government too, must support workers and businesses in these endeavours.
- Besides the key recommendations we discussed tonight, there is a slew of others that we must work on, from helping businesses reduce the medical cost exposure to improving health and safety measures as a result of an older workforce.

- We accepted the Workgroup's recommendation that a package of wage offsets will help bring relief throughout the next decade of changes to the retirement and re-employment age.
 - Each time the CPF rate is adjusted too, transition support will be provided.
 - DPM Heng Swee Keat will share about the package of support at next year's Budget. Trade & Industry Minister Chan Chun Sing and I are working together with him to shape this package.
71. One last point. Although Prof Jean Yeung describes the Workgroup's proposals as "an inevitable policy trend", there is actually nothing inevitable about the consensus that the tripartite partners built.
72. In a few weeks, I will be meeting up with my international counterparts at the G20 Labour and Employment Ministers Meeting in Matsuyama, Japan.
- Demographic developments in advanced economies have many similarities.
 - The ministers have therefore been exchanging notes. Indeed, our policy choices are clear and not terribly different.
 - But building consensus has been extremely difficult for some of my colleagues.
 - Discussions are fractious and politically-charged.
 - Sometimes, it is one step forward and two steps back.
73. In sharp contrast, the temperature here has been kept comfortably warm.
74. I am quietly hopeful that in a decade or so, we will look back on this remarkable period of transition and thank the Workgroup for launching us on this journey.
75. Thank you once again for inviting me.
76. I look forward to our discussion.