Is too much of payout going into CPF?

HAIRSTYLIST Pout Moi Eng, 51, earns $1,300 a month and is set to receive $540 a year from the new Workfare Income Supplement scheme.

Of this, $437 will be paid directly into her CPF account and she will get the remaining $103 in cash.

Madam Pout wishes she could have more cash upfront to pay her utility bills.

“What can you do with a hundred dollars these days, especially since it will be paid in two instalments?” she asked.

Workfare is meant to help older, low-wage workers like Madam Pout.

The main target group is workers aged over 45 who earn $1,000 or less a month. They are in the bottom 35 per cent of income-earners and will receive Workfare of up to $1,200 a year.

Workers over 35 and earning $1,500 or less a month are also eligible, but will get smaller sums.

Just over 70 per cent of the Workfare amount will go into workers’ CPF accounts, and the rest will be in cash.

In tandem with this change, low-wage workers will pay less into their CPF accounts. So will their employers.

The idea is to let these workers have more cash in hand, and encourage employers to hire more of such workers.

Hong Kah GRC MP Ang Mong Seng is one of those in favour of a bigger cash component in Workfare.

“The workers will, of course, want more cash for their daily needs but the Government is thinking about their long-term needs, such as being able to foot their medical bills when they grow old,” he said.

“A 50-50 ratio is more reasonable so that the concerns of both parties can be balanced equally,” he said.

But Bishan-Toa Payoh GRC MP Josephine Teo points out that Workfare is tied to CPF changes that will raise the take-home pay of low-wage workers, but result in lower CPF savings for workers’ housing, health-care and retirement needs.

“It is, therefore, good that more of the Workfare will go into CPF, otherwise, the CPF balances will build up too slowly,” she said.

Ang Mo Kio GRC MP Indarjit Singh agreed.

“It is our responsibility as MPs to reason with our residents and tell them why money in CPF is for the good of Singaporeans in the long run. We have other means like Comcare to help those in short-term need,” he said.

Balancing act

BUT policy makers need to maintain a fine balance between helping these vulnerable workers secure their long-term social security and making sure that Workfare remains an incentive for them to stay employed.

After all, the fundamental philosophy behind Workfare is to make work pay, by ensuring that even low-skilled workers get enough pay to want to stay on in their jobs.

Wages for this group have stagnated or fallen due to competition from workers in low-wage countries worldwide.

The bigger the share of Workfare that goes into CPF, the less likely workers are to view this income supplement as a strong incentive to keep working.

On the other hand, if the cash component is too large, some workers may become complacent about upgrading skills to secure better-paying jobs, finding it easier to depend on the Government’s wage supplement.

Labour economist Hui Weng Tat of the Lee Kuan Yew School of Public Policy says putting the bulk of Workfare into CPF means it is less likely to become a disincentive for workers to upgrade.

Besides employees, Workfare will also be given to a second, smaller group of low-wage workers who are either self-employed or work in the informal sector and do not contribute to CPF.

This group includes odd-job labourers, hawkers and small business owners.

When the Government experimented with Workfare as a one-off bonus scheme last year, these casual workers had only to fill out a form declaring that they earned below a certain amount each month and worked regularly, to qualify for the payout.

Now that Workfare is permanent, criteria have been tightened. For a start, they must pay a small sum into their Medisave to qualify.

Right for casual workers?

THEY will get a smaller Workfare payout than that given to workers in the formal sector, and all of it will go into their Medisave accounts.

The aim – to get these workers to join the CPF network and save for their future needs.

But will these workers bite, especially when many of them are likely to be cash-strapped?

Long-time unionist Nithiah Nandan says some might not. He suggests that the Government consider giving them part of the Workfare in cash, to attract them to sign up.

“These workers face a drop in their salary by contributing to Medisave. Some cash would help encourage and incentivise them to chip in to Medisave. It would also help them make ends meet,” he says.

Labour economist Pang Eng Fong says the Government’s rationale for setting such a qualifying criterion is sound but may need to be refined.

“The Government knows that, left to themselves, these workers would not save for the future. So this is to encourage the habit of saving for themselves,” he said.

Citigroup economist Chua Hak Bin warns that no matter how good the intentions, setting stringent conditions always means there is a risk of people opting out.

“The Government will have to make an assessment on whether the proportion that opts out is large or acceptable,” he says.

National Trades Union Congress director of industrial relations and nominated MP Cham Hui Fong says unionists will have to educate casual workers about the benefits of this scheme.

But she says that if they can be won over, Workfare can be crucial in helping them foot future medical bills. This is because they can use the $60 to $70 that the Government will pay into their Medisave to buy medical insurance for themselves.

But union leader Ameer Hamzah, the general secretary of the Singapore Port Workers’ Union, says these changes must go hand in hand with stricter enforcement against employers who break the law by not paying their contract workers CPF.

He added: “Contract workers see the cash they get immediately but forget that in a few years’ time, they may need MediSave for health items.”

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