

Why you should contribute to the SRS

The Supplementary Retirement Scheme (SRS) was introduced on 1 April 2001 to complement the basic retirement needs provided by the Central Provident Fund (CPF) scheme. However, unlike the CPF scheme where contributions are mandatory, contributions to SRS are not. Why then should you forego current disposable cash and contribute to the SRS, locking it up for relatively long periods?

Benefits & Restrictions

The SRS can help to maximize savings by offering tax relief to income earned. The objective is to encourage individuals to take ownership of their retirement years by saving more. Every dollar saved through the SRS reduces the taxable income by a dollar. This translates into greater savings available for investing, with higher contributions leading to greater savings. Also, investment gains under the SRS are tax free¹.

There is a contribution limit, which is determined at a percentage of income earned in the preceding year. The limit is 15% for Singaporeans and Singapore Permanent Residents, subject to an absolute maximum of \$12,750; and 35% for foreigners, subject to an absolute maximum of \$29,750.

As the SRS is focused on long-term savings and investments, it has certain restrictions. Before age 62², 100% of the amount withdrawn will be subjected to taxation. A premature withdrawal penalty³ of 5% would also apply. After age 62, only 50% of the amount withdrawn will be subjected to taxation without penalty. Withdrawals need not be in a lump sum, and can be phased out over a 10-year period.

Investing SRS Funds

Contribution to the SRS is meant to be accumulated for retirement, preferably to be withdrawn from age 62 onwards. However, leaving your contributions with the operator banks in a low interest earning savings deposit may not be the wisest decision and may not help you move closer to achieving your financial goals. Given the relatively longer period to retirement, should you start planning now, it is advisable to invest for growth and returns.

There are few restrictions on the choice of investments. With the exception of direct property and selected insurance products, most investment products are approved under the SRS, including fixed deposits, unit trusts, shares and managed accounts.

Final Words

When deciding whether to contribute and invest SRS funds, you should consider your cash availability, lock-up period till retirement, tax benefits, suitability of investment product and investment earnings. Each yearly contribution, when invested, would accumulate towards another source to meet your retirement needs. By contributing to your personal SRS account, you pay less tax today and save more for tomorrow. By investing your SRS funds, you grow your savings even more.

Notes

- 1 Except Singapore dividends received
- 2 Current statutory retirement age
- 3 Penalty does not apply in the event of death, incapacitation and bankruptcy; and for foreigners who make full withdrawals and have maintained their SRS accounts for at least 10 years