Supplementary Retirement Scheme – 4 Things You Need To Understand Before Opening An SRS Account

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In Singapore, we cannot afford to ignore setting aside time for retirement planning, especially with the high cost of living and busy lives we lead. Solely relying on the national CPF LIFE scheme to provide us an income during our retirement may not be prudent, or even sufficient, for every person in Singapore.

This is why many Singaporeans continue to save up and invest for their retirement despite having CPF LIFE. The idea is to supplement the basic income that we will receive from CPF LIFE so that we can continue to enjoy a high-quality lifestyle during our golden years.

The **Supplementary Retirement Scheme**, also known as the **SRS**, is part of the government's multi-pronged strategy to address the retirement needs of Singaporeans. While CPF contributions are compulsory, contributions to our SRS accounts are voluntary.
Contributions to the SRS account can be used for investing. They can subsequently be withdrawn to provide an additional source of income once members reach our statutory retirement age of 62.

How Does An SRS Account Work?

Unlike funds in our CPF accounts, that generate risk-free interest of between 2.5% to 5%, contributions made to your SRS account only generate a nominal interest of 0.05% per annum. This is similar to the base interest rates on most bank savings accounts in Singapore.

However, the major advantage SRS offers lies in its tax benefits. Voluntary contributions made to your SRS account are eligible for a dollar-for-dollar tax relief. The annual SRS contribution cap is currently set at $15,300 for Singapore citizens and permanent residents, and $35,700 for foreigners.

Before you consider whether or not an SRS account is suitable for you, here are four important things that you should first determine.

#1 How Much Tax Savings Will I Be Enjoying?

The main reason for opening an SRS account is to enjoy tax savings while saving for retirement. This means you should determine how much income tax you are actually paying each year, before you can calculate how much tax savings you can enjoy should you start contributing to your SRS account.

Here's a rough estimate on the income tax you can expect to pay based on your annual income, before and after your SRS contribution.

Annual Income ($)	Typical Income Tax ($)	Income Tax After $15,300 Contribution To SRS ($)	Amount Save
20,000	0	0	0
40,000	550	94	456
60,000	1,950	879	1,071
80,000	3,350	2,279	1,071
100,000	5,650	3,891	1,759
200,000	21,150	18,396	2,754

From the table above, it's clear that people with a higher taxable income have greater incentive to contribute to their SRS account, as they would be able to reduce their income tax by a larger amount.

For example, an individual whose annual income is $200,000 can save up to $2,754 in taxes based on a $15,300 contribution to his/her SRS account. In contrast, an individual whose annual income is $40,000 only saves $456 based on the contribution. This is because Singapore adopts a progressive income tax system, where those with higher income are taxed at a higher rate. Hence, reducing their assessable income translates into greater savings.

For our calculation, we have assumed individuals do not receive any tax relief or personal income tax rebate. For a more precise calculation of how any SRS contribution could reduce your income tax for YA 2017, we encourage you to do a calculation for yourself

#2 How You Intend To Invest Your SRS Contribution

As mentioned above, unused contributions in your SRS account will only earn an interest of 0.05% per annum. This means that you should aim to invest your SRS contributions if you want to earn a better return. Otherwise, your savings will be eroded by inflation.

You are able to invest in a wide range of financial instruments depending on your personal preference. These include stocks, bonds, fixed deposits, unit trusts and annuity plans.

By investing your SRS funds, you will not only enjoy immediate tax savings, but also give yourself the chance to earn a higher return over time.

As with all investments, there is always the possibility losses could be sustained. Hence, it's important to determine the type of investments you are comfortable making before you start investing with your SRS funds.

#3 Gains On Your Investments Are Tax-Free. However, 50% Of Your Future Withdrawal During Retirement Will Be Taxed

Any gains you make on your SRS investments make will automatically go into your SRS account. These gains are exempted from any income tax until you decide to withdraw the money.

When you reach the statutory retirement age (currently 62), you will enjoy a 50% tax concession for any amount withdrawn from your SRS account.

For example, if an SRS member withdraws $40,000 per annum, only $20,000 (50% of $40,000) will considered as taxable income. If an individual has no other source of taxable income at that age, then he will not have to pay any income tax, since his first $20,000 is tax-free.

SRS members have a ten-year period to make withdrawals from their SRS account. Any amount remaining in the SRS account after 10 years will be automatically considered as a lump sum withdrawal, with 50% of the amount subject to income tax.

Here’s a table below to illustrate how you can optimise withdrawals to minimise any tax payable, if any at all.

Scenario A: Amount in SRS Account at age 62: $400,000

Year	Amount Withdrawn	Taxable Income	Income Tax
1	$40,000	$20,000	$0
2	$40,000	$20,000	$0
3	$40,000	$20,000	$0
4	$40,000	$20,000	$0
5	$40,000	$20,000	$0
6	$40,000	$20,000	$0
7	$40,000	$20,000	$0
8	$40,000	$20,000	$0
9	$40,000	$20,000	$0
10	$40,000	$20,000	$0
Total	**$400,000**	**$200,000**	**$0**

Scenario B: Amount in SRS Account at age 62: $400,000

Year	Amount Withdrawn	Taxable Income	Income Tax
1	$80,000	$40,000	$550
2	$0	$0	$0
3	$80,000	$40,000	$550
4	$0	$0	$0
5	$80,000	$40,000	$550
6	$0	$0	$0
7	$80,000	$40,000	$550
8	$0	$0	$0
9	$80,000	$40,000	$550
10	$0	$0	$0
Total	**$400,000**	**$200,000**	**$2,750**

Comparing Scenario A & B

	Scenario A	Scenario B
Total Amount Withdraw	$400,000	$400,000
Total Taxable Income	$200,000	$200,000
Actual Income Tax	**$0**	**$2,750**

Even though both scenarios had a total of $400,000 withdrawn from the SRS account over a ten-year period, Scenario A allows SRS member to avoid paying any income tax. This is why you should also plan your withdrawals carefully.

#4 Penalty For Early Withdrawal

The biggest caveat against the SRS account is that withdrawals made before the statutory retirement age will be subjected to a 5% penalty. In addition, 100% of the amount withdrawn will be taxable.

For example, if you withdraw $10,000 from your SRS account before the age of 62, you will incur a penalty of $500 (5%). The full amount of $10,000 will also be added to your taxable income for the year.

In our opinion, you should only contribute funds to your SRS account if you are fairly confident that you wouldn't need the money in the future. Otherwise, the 5% penalty on early withdrawal may cancel out any tax savings you enjoyed in the first place.

However, if withdrawal is made under exceptional circumstances such as death, medical grounds, bankruptcy or by a foreigner who has maintained his SRS account for at least 10 years from the date of his first contribution, then the 5% penalty for early withdrawal will not apply.

Our Analysis: SRS Is A Useful Way To Grow Your Retirement Funds And Save Money On Tax For Higher Income Earners

By now, the value proposition for the SRS should be fairly clear. If you are a mid to high-income earner, with a taxable income of $60,000 or more, you can consider contributing to your SRS account, and to save some money on your tax.

For example, an individual with a taxable income of $60,000 will save about $1,070 in his income tax when he contributes $15,300. This savings is immediate.

In the unlikely scenario that that he/she needs to withdraw the money in the future (e.g. unemployment), his 5% penalty of $765 would still be lower than the tax savings in the first place. While this is not an ideal scenario, it also illustrates how the SRS can be an effective tax savings mechanism for mid to high-income earners.