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INSURANCE AND FINANCIAL
PRACTITIONERS ASSOCIATION
OF SINGAPORE

POLICY UPDATE - CONTRIBUTE AS YOU EARN (CAYE) & THE EFFECTS ON YOU AS A SELF-EMPLOYED FINANCIAL ADVISER REPRESENTATIVE (FAR)

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Introduction

In 2019, then Minister of Manpower, Ms. Josephine Teo, tabled a CPF amendment bill on Contribute-As-You-Earn (CAYE), in relation to self-employed persons. The bill was passed in parliament and has been codified in the Central Provident Fund (Contribute As You Earn Scheme) Regulations 2019. As a self-employed financial adviser representative (FAR), this law will have an impact on you. The purpose of this article is to present the facts, the likely impact on your operating cash flows, and help prepare you for this implementation.

What is Contribute-As-You-Earn (CAYE)?

According to data from the CPF website, under CAYE, a MediSave contribution is required as and when a self-employed person (SEP) earns a service payment. Every time a payment is made to an SEP, the agency/company making the payment will first deduct and credit a portion of the service payment to the SEP's MediSave Account, before paying the remainder of the service payment to the SEP. CAYE does not change the amount of MediSave contributions SEPs have to make based on their Net Trade Income (NTI).

Who needs to participate in CAYE?

All SEPs will eventually be on this scheme. The Government, as a service buyer, has piloted CAYE in 2020, and the next batch of SEPs likely to be included in this scheme are the financial adviser representatives (FARs) as well as real estate agents. Therefore, it is good that we prepare for this implementation.

The purpose of CAYE

The purpose of CAYE is to help SEPs build up their CPF Medisave by contributing to this account in the current year rather than paying for it one year later after the income tax assessment. In this regard, both the CPF Board and MOM have made it clear that CAYE does not change the amount which an SEP needs to pay, it is just a new method of furnishing the mandatory CPF MediSave contribution as an SEP. Based on the data on CPF's website, the likely scenario is that the insurance company or FA firm will pay out the monthly income (consisting of commission, renewals, and production bonuses) net of CPF MediSave to the FAR. The CAYE contribution rate is determined by the following formula:

$$\text{CAYE contribution rate} = \frac{(AxB)}{C}$$

Where

A is the MediSave contribution rate of your estimated annual Net Trade Income (NTI)* and age for the year;
B is your estimated annual NTI for the year**; and
C is your estimated annual revenue for the year

**Your estimated annual NTI is derived using your estimated annual revenue less estimated annual expenses for the year.*

***If you did not provide your estimated annual revenue and expenses for the year, it will be based on your actual revenue and expenses assessed by IRAS two years ago.*

A floor CAYE contribution rate of 2% will apply if you earned an annual NTI of more than $6,000 two years ago. You may also log into "My Self-Employed Home" in the CPF website with your SingPass to update your projection of NTI for the current year.

Impact on FARs

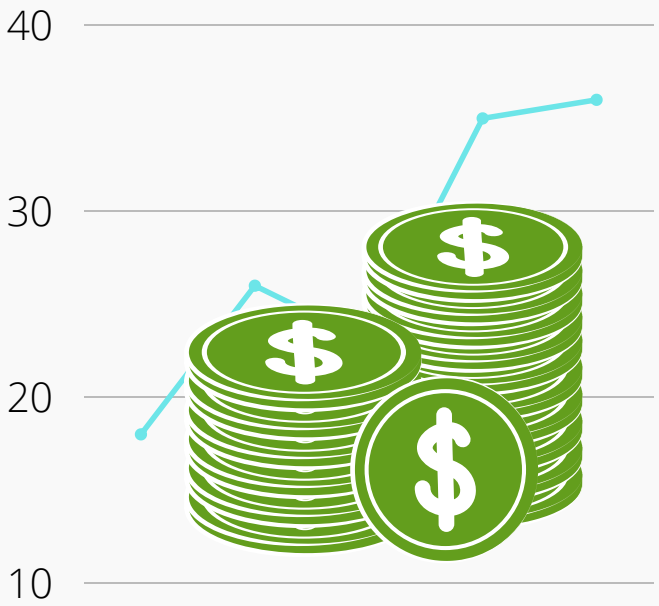
First, in the first year of this implementation, an FAR may feel some impact on one's cash flow, because he or she will be paying both this year's CAYE and last year's CPF MediSave contribution as an SEP. However, if the FAR has good payment records on his past MediSave contributions, he or she can set the CAYE contribution rate to 0%. But for a new FAR who doesn't have a past track record on MediSave contribution, he or she is likely to be placed on the CAYE scheme.

Second, there will be an increase in operating cost on insurance companies and FA firms to implement this system. However, it is necessary to highlight the operating principle underlying this implementation, is that such cost should not be passed on to the FARs. If this is indeed the case, do report the matter to this association so this can be escalated to policy makers.

Afterthought

Is this a good or bad policy? Objectively, CAYE does have its benefits because it places financial discipline on the FAR's cashflow by collecting the CPF MediSave contribution upfront instead of a year later. I do come across FARs that get into bad cashflow situations when they receive the CPF MediSave contribution notice from the CPF Board in April and May each year. On the other hand, I do concur that this scheme should have minimal or no impact on FARs who are disciplined in their cashflows, and are contributing their CPF MediSave promptly, through a lump sum or GIRO instalments.

For the new FARs, do take note that non-contribution of CPF MediSave can affect your license renewal with your insurance company or FA firm. Hence, it is wise to work the Medisave contribution into your business budget.



ABOUT THE AUTHOR

Allen Lim is an active IFPAS member and currently serves as IFPAS 1st Vice President, heading the Education & Training department. Allen is a licensed financial practitioner and holds the AFC, ChFC ®/S, CLU®/S & FChFP designations, and has a Certificate in Law (Estate Planning).