



Saving your money in piggy bank is not the key to financial planning.

Key to Total Financial Planning...

- Save for Retirement
- Grow the money

Reduce Income Tax with Supplementary Retirement Scheme (SRS)

Supplementary Retirement Scheme (SRS) is a voluntary saving scheme introduced by the government to encourage Singaporeans to save more for their old age. Singaporeans and foreign workers can open an SRS account at any branches of the 3 SRS Operators - DBS, OCBC and UOB. Participants can then contribute up to \$12,750 (for Singaporean, or \$29,750 for foreign workers) to SRS at their own discretion yearly.

Benefits

One immediate benefit for participating in SRS is that you can claim tax relief for contributions made to SRS. Each dollar of SRS contribution will reduce your income chargeable to tax by a dollar. This works out to be a total savings of up to \$2,550, depending on your Income Tax Bracket and the SRS contribution. You will need to contribute to the SRS account before 31 Dec of each year in order to enjoy the tax relief in the next year of assessment of income tax.

Example 1: Mdm Lim earns \$3,500 a month and contributes \$6,300 to SRS.

	No SRS Contribution	With SRS Contribution
Annual Income	\$42,000	\$42,000
Less SRS Contribution*	-	\$6,300
Chargeable Income**	\$42,000	\$35,700
Income Tax***	\$690	\$399.50
Tax Savings	-	\$290.50

One immediate benefit for participating in SRS is that you can claim tax relief and save up to \$2,000.



Managing and growing the money is.

Example 2: Mr Chan earns \$7,000 a month and contributes the maximum of \$12,750 to SRS.

	No SRS Contribution	With SRS Contribution
Annual Income	\$84,000	\$84,000
Less SRS Contribution*	-	\$12,750
Chargeable Income**	\$84,000	\$71,250
Income Tax***	\$3,810	\$2,737.50
Tax Savings	-	\$1,072.50

* Assuming no other tax relief claimed.
 ** Subject to a cap of \$12,750 for Singaporean/PR.
 *** Individual Income Tax Rate for FY2012

With effect from 1 Oct 2008,

- Employers can contribute to their employees' SRS accounts and claim full tax deduction. Employees will enjoy tax relief on the contribution made by their employers.
- SRS members can contribute beyond the prevailing statutory retirement age when the SRS account was opened, up to the point of their first penalty-free withdrawal. The SRS monies can be withdrawn over the next 10 years from the date of the first penalty-free withdrawal.
- Individuals without any earned employment income in the previous year can also contribute to the SRS in the current year.

For Singapore Citizen and Permanent Resident, you will be able to withdraw the SRS money from age 62 or the official retirement age when you open the SRS account. As only the 50% of the amount withdrawn are subjected to income tax, you can plan and spread out the withdrawal amount for the next 10 years to minimize the chargeable income tax.

However, if you withdraw before the penalty-free period, there will be a 5% penalty on the withdrawal amount. This 5% penalty will be waived for bankrupts. If the withdrawal is made due to death, total permanent disability, unsound mind or other medical ground, besides waiving the 5% penalty, only 50% of the withdrawal amount is subjected to Income Tax.

For foreigners, you are allowed to withdraw the SRS monies with 50% subject to tax as long as you have maintained the SRS account for at least 10 years from the date the first contribution has been made.

Saving and Investment Plans

The amount deposited into SRS account will earn you meagre % of interest rate offers by the bank. You can, however, use the SRS contributions to purchase various investment instruments such as shares and insurance policies from NTUC Income SAIL or Growthlink (Investment-linked Policy) that earns you much better returns.

The key benefits for the newly launched Income products are described as follows:

GrowthLink (Single Premium Investment-Linked Plan)	SAIL (Savings plan with insurance coverage, high returns and regular income)
<ul style="list-style-type: none"> • Low initial investment of \$5,000 with the flexibility to top-up • 100% of your money is invested • Low fund management fees so that more of your money is invested • Wide range of funds to suit your every need – with the freedom to choose any number of available funds • Unlimited fund switches – free of charge • Professional fund management expertise 	<ul style="list-style-type: none"> • Flexible saving options You choose the savings term and amount. • Your returns – your way, up to 4.10% per annum Lump sum payout or a stream of steady income over 20 years? You decide. • Hassle-free application process No medical checkup required – start investing right away. • Added protection with insurance coverage Additional insurance coverage for Death and Total and Permanent Disability (TPD before age 65). • Low minimum investment amount Start with just a \$5,000 commitment

A comparison of the expected return from various Investment Instrument for a period of 20 years of principal amount \$12,750, and the Pros and Cons of the different investment strategies are given below.

Investment Instrument	Assumed Interest Rate Per Annum	Projected Future Amount	Pros & Cons
Save in bank	0.125%	\$13, 072	<p>Pros No risk</p> <p>Cons Money depreciates in value since inflation is higher than interest rate. 6</p>
NTUC Income SAIL	4%	\$27, 936	<p>Pros Low Risk for endowment plan. Beat Inflation Rate and hence money appreciates in value.</p> <p>Cons Tied-in for the 20 years.</p>
NTUC Income GrowthLink	9%	\$71,456	<p>Pros Good appreciation in value</p> <p>Cons Returns depend on market volatility. But it is reduced by long-time horizon of 20 years</p>
Stock	>10%	>\$85, 775	<p>Pros Good appreciation in value</p> <p>Cons Returns depend on market volatility. But it is reduced by long-time horizon of 20 years</p>

Conclusion

As suggested, contributing to SRS not only offers immediate benefit in reducing income tax but also provides wider and wiser options for you to grow your money for your retirement.

For more information on SRS and individual income tax rates and NTUC Income insurance/investment plans, visit the Ministry of Finance and NTUC Income website at

- http://app.mof.gov.sg/supplementary_retirement_scheme.aspx
- <http://www.income.com.sg>

Update the figures quarterly and also whenever there is a major change in life goals or financial commitment.



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