

# **Strengthening Income Support for Elderly in Singapore**

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## **Outline**

1. Salient Features of Pension System in Singapore : Accumulation and Payout phase of a DC system
2. Retirement Preparedness of young Singaporeans
3. Retirement Adequacy of Current Elderly
4. Income support for affordable healthcare for the pioneer generation

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## **1. INTRODUCTION: MAIN FEATURES OF CPF**

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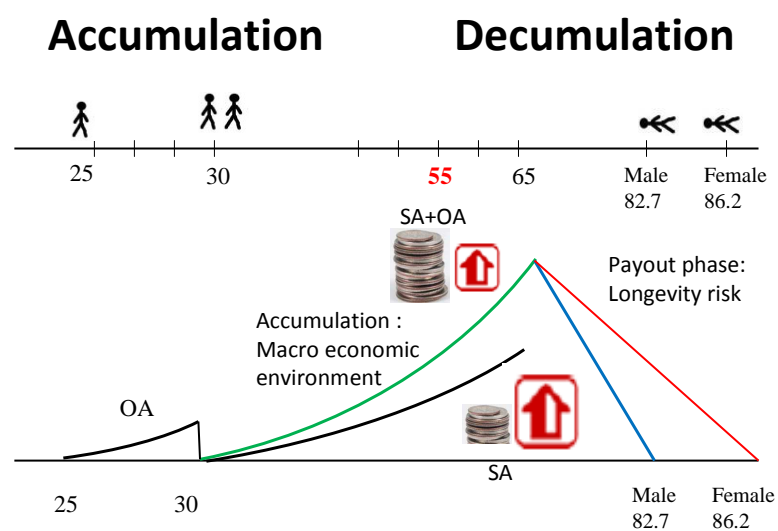
### **Central Provident Fund (CPF) Defined Contribution**

- Exposes individuals to risks
  - Longevity risk
  - Interest rate and inflation risk
  - Economic risk
  - Macro economic and labour market conditions
- ➔Protection against longevity risk?
- ➔Provide adequate retirement income?
- ➔Design of accumulation
- ➔Mechanism during payout phase (monetization of assets)

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## 2. ACCUMULATION AND PAYOUT PHASE OF A DC SYSTEM

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## Accumulation Phase

- **CPF Policy Parameters**
  - Contribution rates (OA, SA, MA)
  - Contribution periods (raising retirement age)
  - Returns to savings
- **Individuals and macroeconomic variables**
  - Starting salary, salary growth, unemployment episodes
- **Pre-retirement Withdrawals**

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### CPF Contribution and Allocation Rates from 1 September 2012 to 31 December 2013

Employee Age (years)	Contribution (% of wage)		Total Contribution (% of wage)	% of total contribution credited to:		
	Employer	Worker		OA	SA	MSA
35 & below	16	20	36	23	6	7
Above 35 –45	16	20	36	21	7	8
Above 45 –50	16	20	36	19	8	9
Above 50 – 55	14	18.5	32.5	13.5	7.5	9.5
Above 55 - 60	10.5	13	23.5	12	2	9.5
Above 60 – 65	7	7.5	14.5	3.5	1.5	9.5
Above 65	6.5	5	11.5	1	1	9.5

- **Minimum salary** for CPF contribution: \$1,500 per month
- **Salary ceiling** for CPF contribution: \$5000 per month

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## CPF Accounts

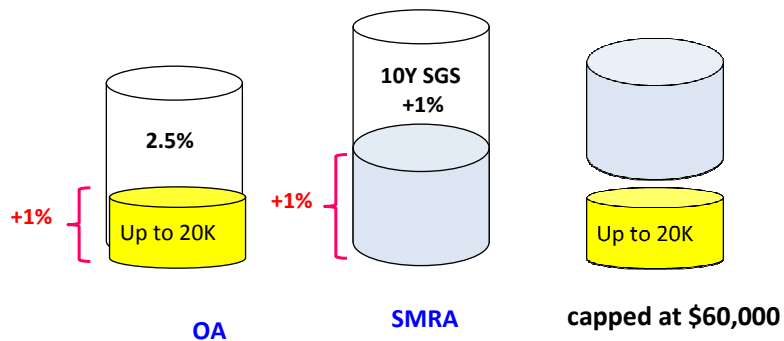
	Ordinary Account	Special Account	Medisave Account	Retirement Account
Usage	<ul style="list-style-type: none"><li>• Housing purchase</li><li>• Investment</li><li>• Education</li><li>• Insurance</li></ul>	<ul style="list-style-type: none"><li>• Old age</li><li>• Investment in retirement – related financial products</li></ul>	<ul style="list-style-type: none"><li>• Hospitalization expenses</li><li>• Approved medical insurance</li></ul>	<ul style="list-style-type: none"><li>• Created <b>at age 55</b></li><li>• OA and SA used to set aside as CPF minimum sum in their RA</li></ul>
Interest Rates	<p><b>2.5 %</b></p> <ul style="list-style-type: none"><li>▪ Based on 80% fixed deposit, 20% savings rates of major local banks</li><li>▪ subject to floor of 2.5%</li></ul>	<p><b>4 %</b></p> <ul style="list-style-type: none"><li>▪ Prior to 2008: OA rate +1.5%</li><li>▪ After 1 <u>Jan 2008</u>, pegged to the yield of the 10YSGS plus 1%</li><li>▪ subject to floor of 4% till end of 2009</li><li>▪ but extended till Dec 2014</li></ul>		
	<p><b>INVEST IN SPECIAL GOVERNMENT SECURITIES</b></p>			

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## Enhanced Return for first \$60K

- An extra interest rate of 1% per annum paid on the first \$60,000 in the combined accounts of each CPF member
- with up to \$20,000 from the Ordinary Account (OA).



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## Starting Wages

- Males enter the workforce at age 25, females at age 23, and they work till age 65.
- CPF administrative database.
- These percentile levels roughly correspond to ITE (high school), polytechnic (post-secondary) and university (college) graduates.

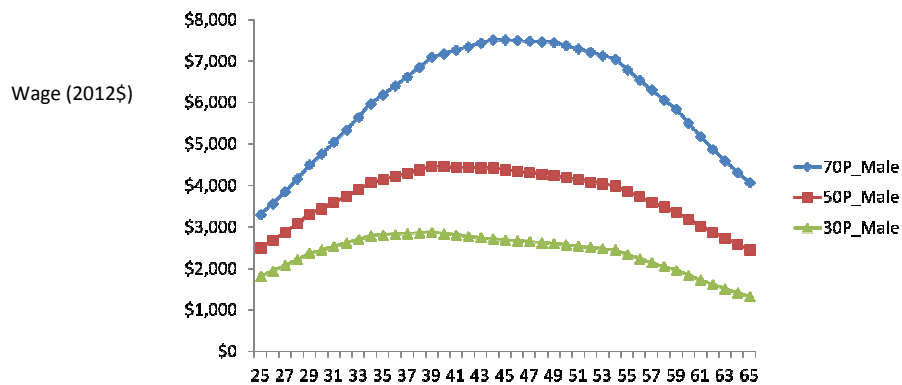
**Starting Wages of Male and Female Workers (2012\$)**

Percentiles	Male (age 25)	Female (age 23)
30P (lower-middle income)	\$1,820	\$1,650
50P (median income)	\$2,500	\$2,120
70P (upper-middle income)	\$3,300	\$2,700

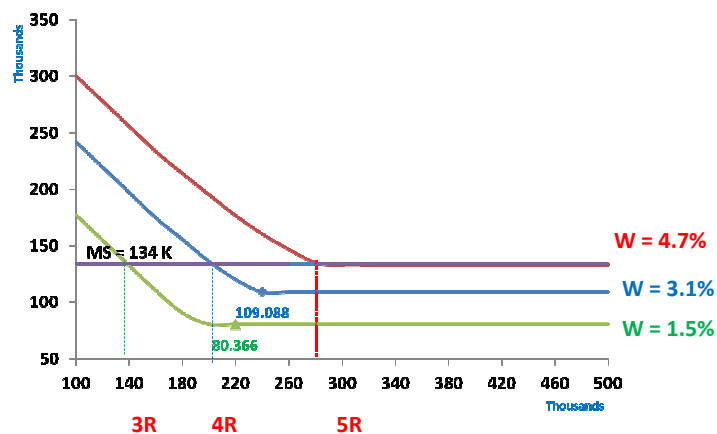
## What the Study Modelled – Earning Paths

- The age-earnings profile of workers over their working life for the respective income percentiles is a hump-shaped distribution of earnings by age, i.e. wage growth is faster when the worker is young and declines as he gets older.

Empirical Age-Earnings Profile (Male Workers)



## Impacts of economic growth on retirement adequacy (PVS)



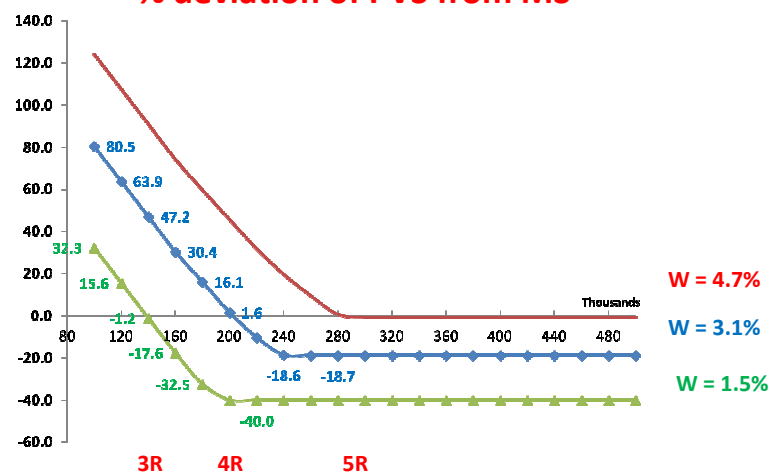
Decile 4, single income, starting salary at \$1900 at age 25

## Accumulation Phase

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### Meeting CPF-decreed minimum sum % deviation of PVS from MS



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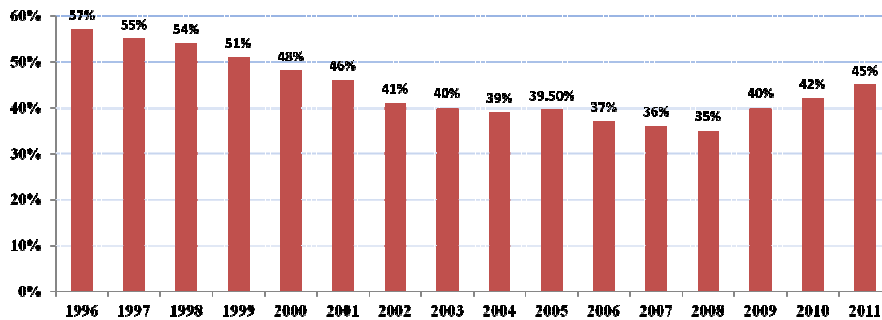
### **KEY FINDINGS**

The current CPF system is able to provide members with adequate retirement as long as they

- Work consistently
- Make prudent decisions in housing consumption
- Use CPF savings beyond the stipulated MS quantum wisely

### **3. RETIREMENT ADEQUACY OF CURRENT ELDERLY (THE PIONEER GENERATION)**

### PROPORTION OF CPF MEMBERS MEETING MINIMUM SUM (MS) REQUIREMENT



#### Insufficient CPF Savings –

#### More than half of the CPF members cannot meet MS

Elderly were working during Singapore's developing phase,  
earning third-world wages, but are now retiring in a developed economy

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### Housing and Retirement Wealth

- Home : asset-enhancement and retirement?
- At retirement, are Singaporeans “asset-rich, cash-poor”?
- Accumulated housing = pot of gold?
- How much housing equities can potentially be unlocked?
- Will housing equity be unlocked?

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## **“There’s No Place Like Home”**

- CPF has enabled many to own their homes, Housing equity potentially can be tapped on to supplement retirement income should the need arises.
- Growing old at home is a desire of most homeowners.

Even if this asset is not monetized, it enables one to save on rental costs in retirement.

Need to incorporate housing asset when assessing retirement adequacy.

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## **Pioneer Generation Fund in Budget 2014**

- address social protection for pioneer generations (born before 1950, now 65 years and above in 2014,)
- Pioneer generation – work in the third world but retire in the first world
- 9% of population (450,000 will be eligible)
- Set aside \$8 billion fund from the budget in a Pioneer Generation Fund
- largest one-time capital injection to a single fund
- exceeds expectations in terms of its initial start-up capital and its comprehensiveness and inclusivity
- Fund is not means tested unlike most other funds
- Transfer and subsidies to ensure healthcare affordability

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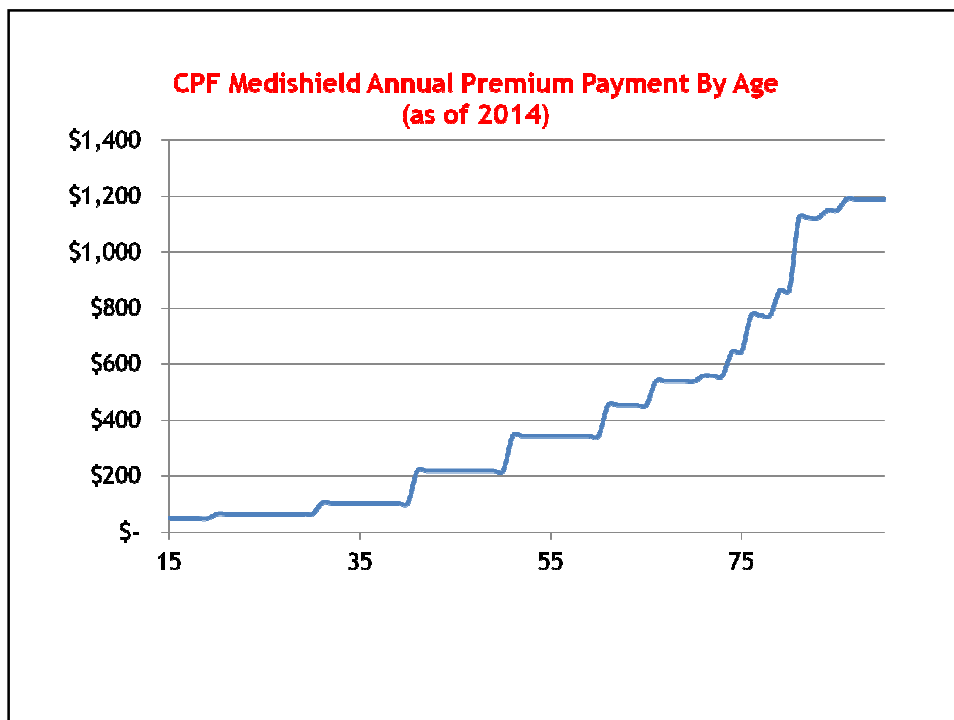
### **Why pioneer generation? The vulnerable group?**

- WHEN Singapore's pioneer generation started working, there was no Medisave, no MediShield and no Medifund
- Salaries were low and people had to retire at an earlier age.
- ➔ Under the defined contribution scheme, the pioneers may not have saved enough to pay for retirement and particularly medical care.
- the Pioneer Generation Package focuses mainly on benefits on healthcare as this is the largest expenditures for retirees.
- Most pioneers are home-owners and need not worry about housing
- If they are not home owners, most have access to heavily subsidized rented housing.

### **What kind of social support under the Pioneer Generation Package?**

Old age income support targeted at keeping healthcare affordable.

- subsidies for outpatient care,
- annual top-ups to the medical savings account
- help pay for premiums for Medishield Life.



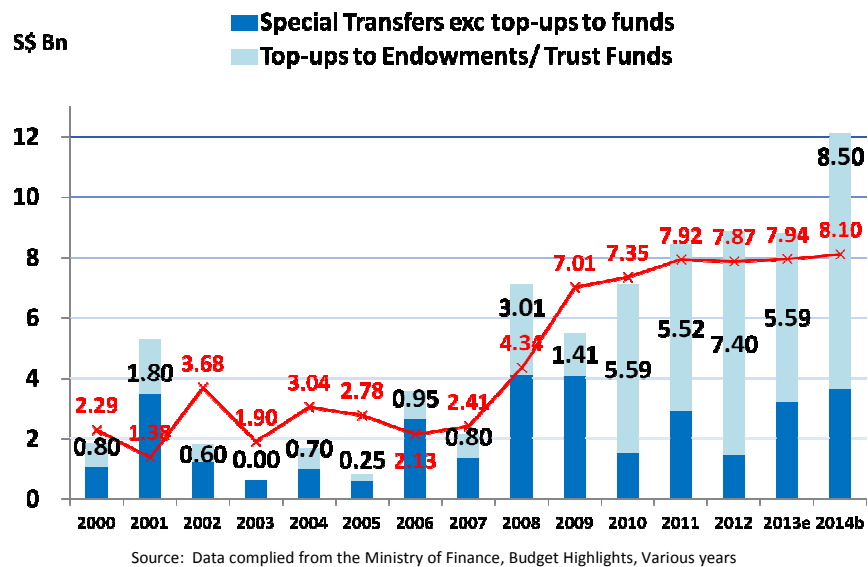
- Taking into account the mortality experience of the elderly and life expectancy improvements over time, I estimate the cost of subsidising MediShield Life premiums fully for those aged 80 and above to be about \$3 billion to \$5 billion, depending on how much premiums increase over time.
- To put this amount in perspective: The overall Budget surplus was \$5.82 billion in FY2012, and another \$3.92 billion in FY2013.

### Unique financing scheme

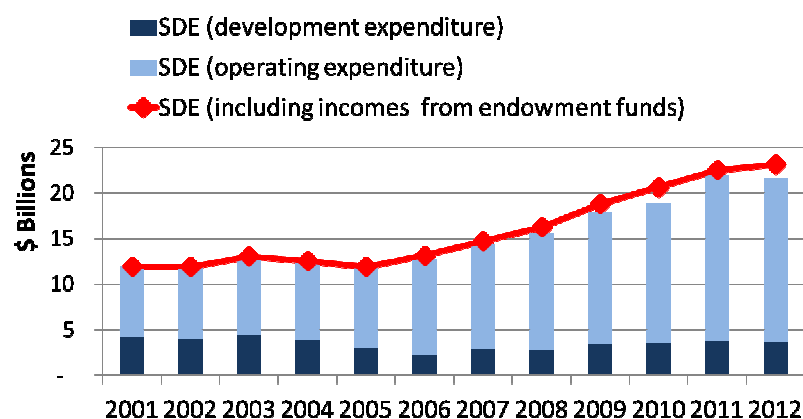
- **Strong budgetary position** allows the government to pay for the whole fund from a single Budget, with only a small projected deficit of \$1.2 billion, or just 0.3 per cent of gross domestic product.
- setting up **funds** reduces the need for higher taxation.
- This is enviable as many nations have to struggle to enhance social security through raising taxes.
- For example, Japan is in the process of raising its current consumption tax from 5 per cent to 8 per cent in April, and then to 10 per cent in October 2015.
- The rise in revenue has been earmarked to finance social security expenditures, particularly pension, medical care and long-term care.
- Funding social security in this manner puts more burden on the current young Japanese tax payers.

### Financing through funds ensure sustainable social spending

- Funds are established with capital injections by the government monies as principal.
  - [1] Endowment funds, only incomes generated from the fund's principal amount are used
  - [2] Trust funds, the principal can also be drawn down.
- Year by year, the returns from the fund and a portion of the fund will be withdrawn to meet these obligations.
- As long as the fund yields good returns, and if surplus returns are reinvested when returns exceed draw-downs, the fund will be able to support the subsidies.
- The Government will not have to draw on past reserves or future taxes to finance specific transfer programs which are prefunded.



- **Medifund** is a social safety net to help needy Singaporeans who are unable to pay their medical expenses. It was set up about twenty years ago, in 1993 with a start-up capital of \$200 million. By FY2012, the capital sum has grown to \$3 billion.
- The **Medifund Silver Fund** was launched in 2007, in response to an ageing population, with an initial capital sum of \$500 million. Both Medifund and Medifund Silver are targeted assistance to the needy and a means-tested with other eligibility conditions.
- **Eldercare fund** was set up in 2000, to finance operating subsidies to nursing homes run by VWOs. Capital sum at \$3 billions in FY2011



Source: Data compiled and constructed from the Ministry of Finance, Budget Highlights, Various years

**Table 1.1: Fiscal Position in FY2010 and FY2011**

	Actual FY2010	Estimated FY2011	Revised FY2011
	\$billion	\$billion	\$billion
<b>OPERATING REVENUE</b>	<b>46.06</b>	<b>48.12</b>	<b>50.53</b>
Corporate Income Tax	10.69	11.01	12.20
Personal Income Tax	6.47	7.00	6.80
Withholding Tax	0.96	1.16	1.18
Statutory Boards' Contributions	0.57	0.44	0.35
Assets Taxes	2.80	3.58	3.86
Customs and Excise Tax	2.05	2.09	2.09
Goods and Services Tax	8.20	8.44	8.75
Motor Vehicle Related Taxes	1.85	1.72	1.83
Vehicle Quota Premiums	1.60	2.01	2.00
Betting Taxes	2.28	2.41	2.38
Stamp Duty	3.28	2.14	2.94
Other Taxes	2.71	3.45	3.34
Other Fees and Charges	2.38	2.51	2.56
Others	0.23	0.18	0.25
Less:			
<b>TOTAL EXPENDITURE</b>	<b>45.34</b>	<b>47.10</b>	<b>47.54</b>
Operating Expenditure	33.27	35.90	35.87

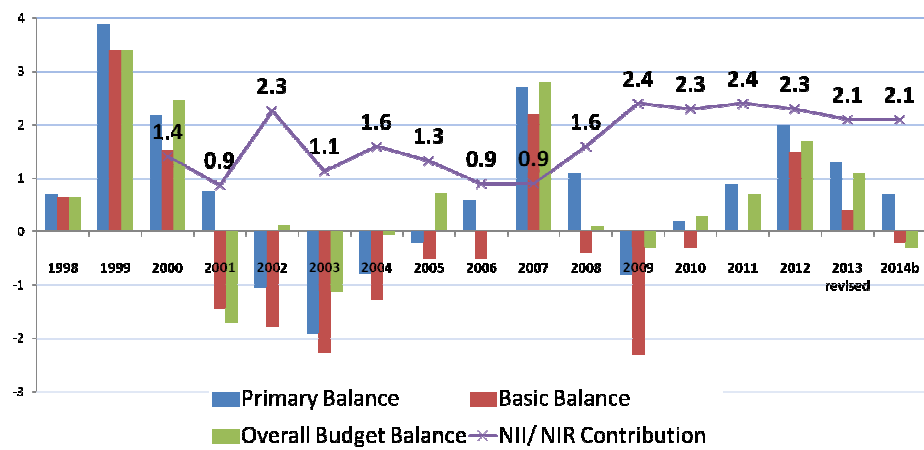


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Less:			
<b>TOTAL EXPENDITURE</b>	<b>45.34</b>	<b>47.10</b>	<b>47.54</b>
Operating Expenditure	33.27	35.90	35.87
Development Expenditure	12.07	11.20	11.67
<b>PRIMARY SURPLUS / DEFICIT<sup>1</sup></b>	<b>0.72</b>	<b>1.02</b>	<b>2.99</b>
Less:			
<b>SPECIAL TRANSFERS<sup>2</sup></b>	<b>7.09</b>	<b>8.73</b>	<b>8.58</b>
Special Transfers Excluding Top-ups to Endowment and Trust Funds	1.50	3.24	3.08
Growth Dividends	0.00	1.55	1.55
GST Credits	0.45	0.00	0.00
Utilities-Save Rebates/Service and Conservancy Charges Rebates/Rental Rebates	0.13	0.30	0.30
Workfare <sup>3</sup>	0.01	0.26	0.26
CPF Medisave Top-ups	0.31	0.50	0.52
Transfers to Young Singaporeans <sup>4</sup>	0.22	0.09	0.09
Transfers to Seniors and the Needy <sup>5</sup>	0.13	0.04	0.04
Transfers to Businesses <sup>6</sup>	0.24	0.48	0.31
<b>BASIC SURPLUS / DEFICIT<sup>7</sup></b>	<b>(0.78)</b>	<b>(2.21)</b>	<b>(0.09)</b>

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<b>Top-ups to Endowment and Trust Funds</b>	<b>5.59</b>	<b>5.49</b>	<b>5.50</b>
Top-ups to Endowment Funds <sup>8</sup>	0.40	2.20	2.20
National Productivity Fund	1.00	1.00	1.00
National Research Fund	1.50	1.00	1.00
Community Silver Trust	-	1.00	1.00
Trust Fund for Workfare Special Bonus and Special Employment Credit	-	0.29	0.30
Singapore Universities Trust	2.00	-	-
CPF Deferment and Voluntary Deferment Bonus	0.44	-	-
LIFE Bonus	0.25	-	-
Add:			
<b>NET INVESTMENT RETURNS CONTRIBUTION</b>	<b>7.35</b>	<b>7.78</b>	<b>7.91</b>
<b>OVERALL BUDGET SURPLUS / DEFICIT</b>	<b>0.98</b>	<b>0.08</b>	<b>2.32</b>

Source: MOF, Singapore Budget Highlights, 2012.

### Government Fiscal Position, 1998 to 2013



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## 5. CONCLUDING REMARKS

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## **Adequacy and Inclusivity of the social protection system**

- Singapore prefunded system for retirement does well in terms of sustainability and inter-generational equity
- Need a change ideology with respect to social protection
  - To provide a safety net
  - Not an issue on sustainability but rather a ideological position
  - Budget 2014 is a step forward to address healthcare needs for the elderly

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# **THANK YOU!**

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