

Housing, Retirement Saving and Innovative Policy Responses for Retirement Adequacy in Singapore

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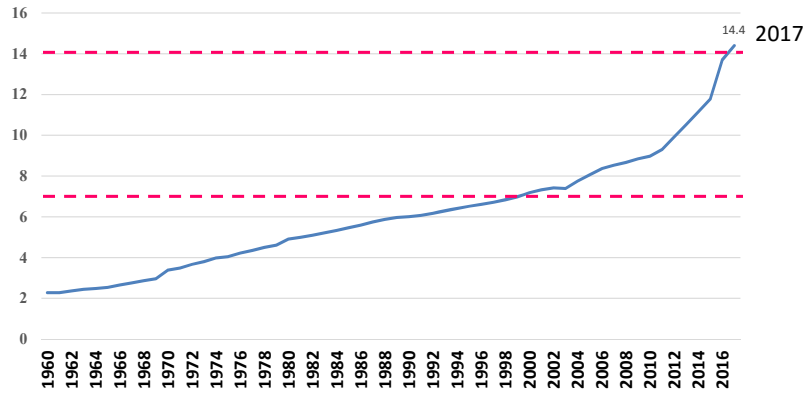
Speed of Aging

- Singapore became an aging population in 1999
- Proportion of elderly population in 2017 is 14.4%
- Projected to become super-aged by 2026
- Singapore takes less than 20 years to transit from ageing to aged.
 - much shorter time to adapt to changing demographic landscape
 - compared to Japan took nearly 25 years
 - US expected to become aged in the next few years. would have taken 66 years to transit from ageing to aged.

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Speed of Aging Proportion of 65 years and over to total population

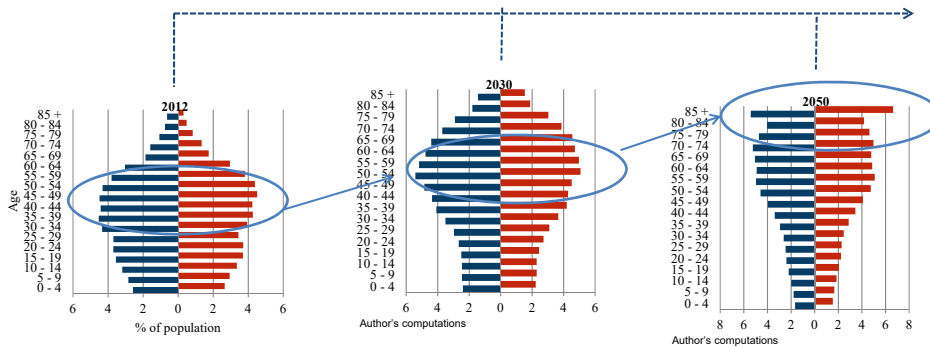


Source: Singstat

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Lee Carter Mortality Forecasting Demographic Landscape of Singapore, 2013, 2030 and 2050

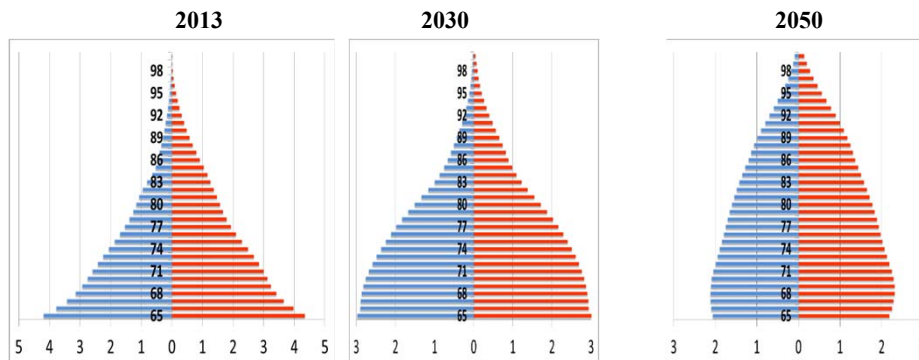


- By 2050, population pyramid would be fully inverted.
- Aging landscape will impact financing a universal basic pension costs in a profound way.
- Quicker transition from ageing to aged population.

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Lee Carter Mortality Forecasting Population Aged 65 and above in 2013, 2030 and 2050



- Oldest Old is the fastest growing age group.
- By 2030, youngest cohort of the baby boomers become young old.
- By 2050, they will become the oldest old.

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Assessing Retirement Adequacy

- Retirement adequacy is multi-faceted
 - individual and social insurance
- Retirement incomes from asset-building over their working life
 - (tight link between housing and retirement policies)
 - use replacement rate as a gauge
 - ratio needs to account for the high home ownership in Singapore
- Social innovations
 - Unlocking housing equity
 - Medishield Life
 - Prefunding healthcare by individuals (Medisave) and society (PGP)

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CPF: WORK-BASED, ASSET-BASED SOCIAL SECURITY

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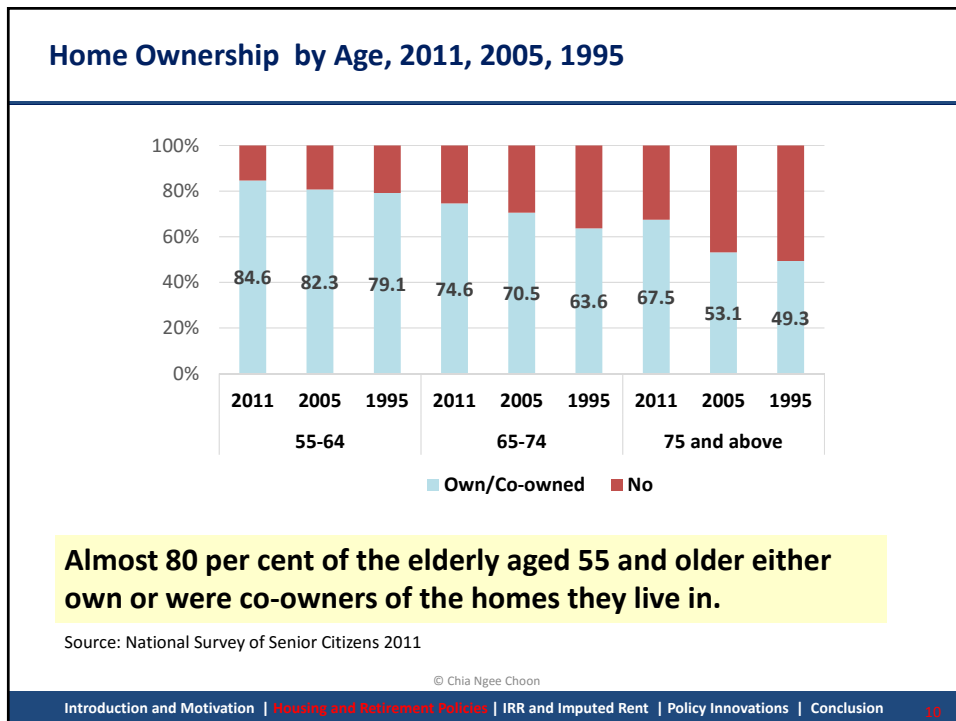
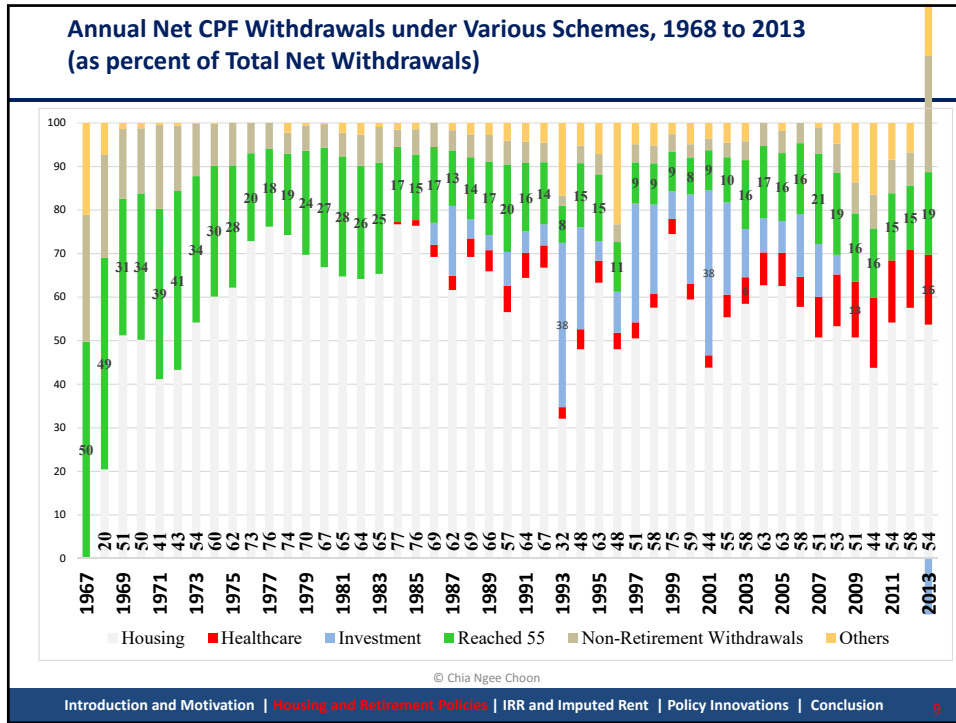
Accumulation Phase : Housing Asset

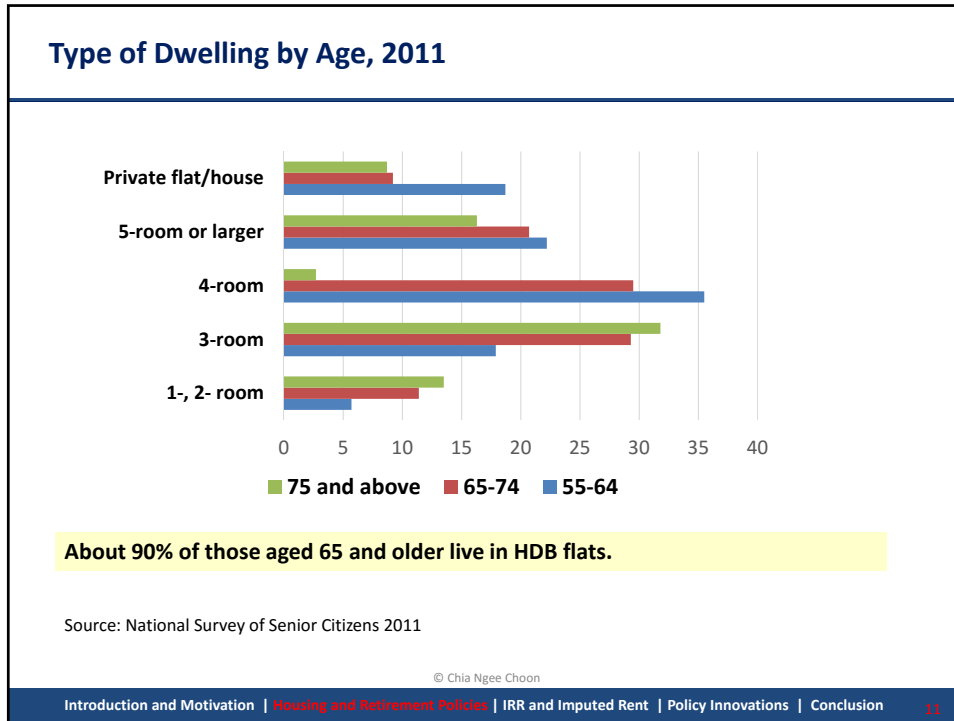
- The self-financed work-based provident fund system has helped Singaporeans to save for retirement and to build up housing assets.
- One of the greatest successes of the CPF system is that it allows people to accumulate housing wealth using CPF monies
- Although this trade off accumulated retirement savings, it allows CPF members, upon retirement, to be homeowners and enjoy significant savings in rental costs.
- CPF members are mostly content with the accumulation phase of the CPF system, especially since the flexibility of pre-retirement withdrawals for housing jibes well with their preferences to accumulate housing wealth.

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State of the Retiree Households

Average Monthly Income of Retiree Households

Source of Household Income	Total ³	HDB Dwellings					Condominiums & Other Apartments	Landed Properties
		Total ⁴	1- & 2-Room Flats ⁵	3-Room Flats	4-Room Flats	5-Room & Executive Flats		
Average Monthly Household Income exc imputed rental of owner-occupied accommodation	1,735	1,147	647	1,069	1,233	1,806	3,851	5,306
Annuities and Monthly Payouts from CPF	208	160	93	145	173	250	513	368

Retiree households in HDB flats on par with first income decile of the employed household.

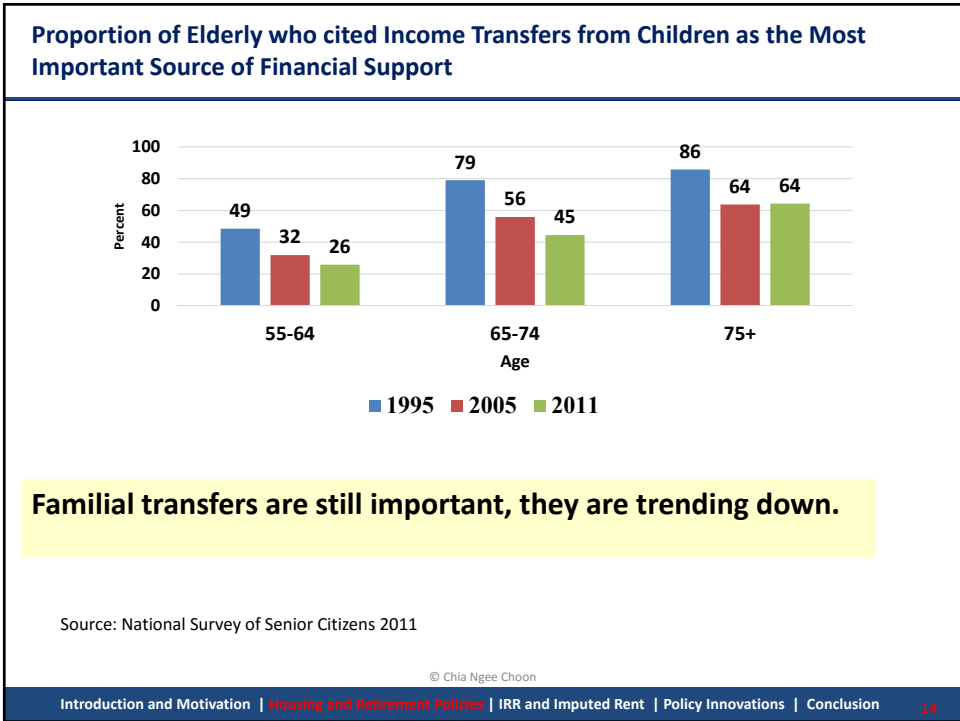
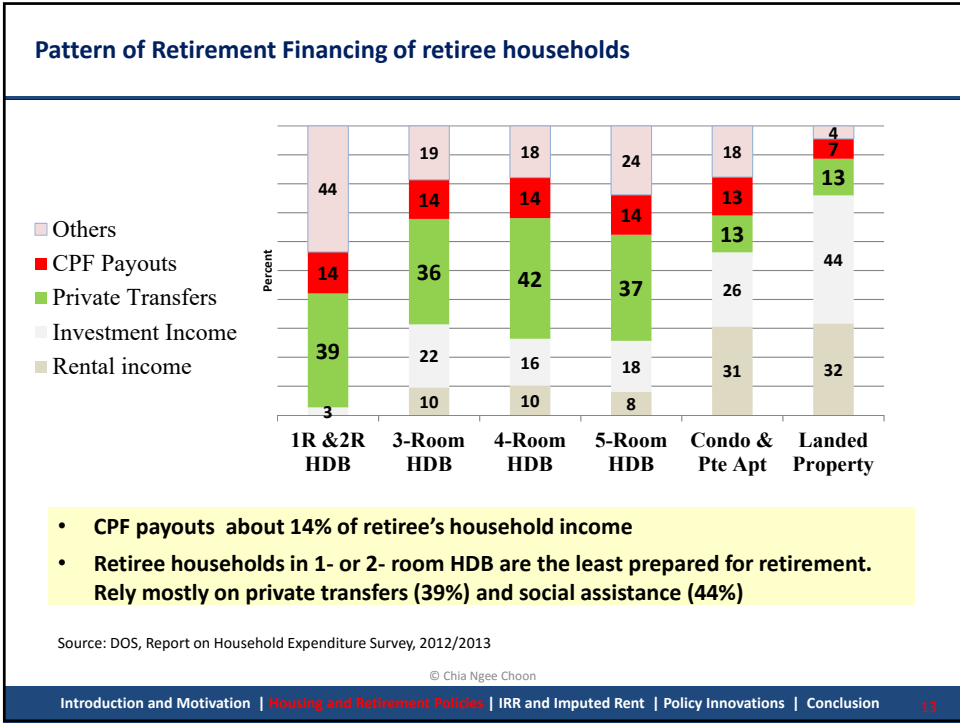
Retiree households in private apartment and landed property on par with 30th and 50th percentile of employed households respectively.

CPF not an important source of retirement income.

Source: DOS, Report on Household Expenditure Survey, 2012/2013

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Comparing Retirement Expenditure for Homeowners and Renters

- When assessing whether CPF savings can support retirement, we must consider whether the retirees are homeowners or renters.
- This is because homeowners need not pay rents over their retirement lifetime, implying that they can save less.
- We will next illustrate the total retirement expenditure for homeowners and renters based on the data from the recently published Household Expenditure Survey, 2012/2013 DOS(2014a).

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Rental cost would have been the largest expenditure item for healthy retirees

	Total	Expenditure Quintile				
		1 st - 20 th	21 st - 40 th	41 st - 60 th	61 st - 80 th	81 st - 100 th
Food and Non-Alcoholic Beverages	10.3	10.2	10.7	13.2	12.1	8.3
Clothing and Footwear	1.1	0.1	0.3	0.5	0.9	1.9
Housing and Utilities	47.6	64.9	58.0	52.8	49.0	38.8
Imputed rentals for owner-occupiers	37.1	51.7	46.9	42.6	39.6	28.3
Furnishings, Household Equipment and Routine Household Maintenance	4.4	1.0	3.8	5.9	4.5	4.7
Health	8.8	4.0	4.4	7.7	8.4	11.5
Transport	4.4	1.0	1.5	1.8	4.0	7.0
Communication	2.2	2.1	2.0	2.6	2.2	2.1
Recreation and Culture	5.4	0.6	2.4	2.4	3.7	9.0
Food Serving Services	7.4	10.4	10.1	7.2	7.5	6.2
Miscellaneous Goods and Services	7.4	5.6	6.5	5.6	7.1	8.7
Others	1.0	0.2	0.2	0.3	0.7	1.7

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Housing Asset and Retirement Savings to Support Retirement Expenditure

Expenditure Quintile	Imputed Rent ¹	Average Monthly Expenditure per Retiree ¹		Savings Needed to Support Average Monthly Expenditure per Retiree		% Increase in Savings Needed for Renters
		Exclude Imputed Rent	Include Imputed Rent	Homeowners	Renters	
Total	\$598	\$1,012	\$1,610	\$242,904	\$386,376	37
1st - 20th	\$339	\$317	\$656	\$76,008	\$157,416	52
21st - 40th	\$458	\$518	\$975	\$124,248	\$234,072	47
41st - 60th	\$535	\$720	\$1,255	\$172,896	\$301,224	43
61st - 80th	\$691	\$1,055	\$1,746	\$253,224	\$418,992	40
81st - 100th	\$967	\$2,451	\$3,418	\$588,144	\$820,224	28

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Comparing Retirement Sums for Homeowners and Renters

	Retirement Account savings required at 55	Your monthly payout* for life from 65
If you own a property and choose to withdraw your Retirement Account savings above your Basic Retirement Sum (subject to sufficient CPF property charge/pledge)	Basic Retirement Sum (BRS) \$83,000	\$700 - \$750
If you do not own a property or choose not to withdraw your Retirement Account savings above your Basic Retirement Sum	Full Retirement Sum (FRS) \$166,000 The FRS is 2 x BRS.	\$1,280 - \$1,380
If you wish to put more savings in CPF LIFE	Enhanced Retirement Sum (ERS) \$249,000 The ERS is 3 x BRS.	\$1,860 - \$2,000

Source: CPF website

*Payout figures are estimates, based on the CPF LIFE Standard Plan and computed as of 2017.

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RETIREMENT PREPAREDNESS OF YOUNG SINGAPOREANS: USING INCOME REPLACEMENT RATIOS

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Retirement adequacy

- Broad view of IRR
- In retirement, people should enjoy a standard of living comparable to the one they had during their working lives
- Questions
 - How to calibrate the income that needs to be replaced
- homeowners generally would have paid off their mortgages
- Enjoyed substantial savings as they need not incur rent
- Savings would support consumption during retirement
- Publicly provided goods and services – such as healthcare and long-term care – can also be particularly important for retirees.

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IRR Study of young entrant worker

- Males enter the workforce at age 25, females at age 23, and they work till age 65.
- They experience wage growth that is reflective of Singapore's labour market.
- The male member marries at age 30 to a spouse who is aged 28. They buy a Built-to-Order (BTO) flat directly from the HDB that is within their financial ability, and jointly finance it using their CPF savings.

Income Group	Flat Type
Lower-middle income (30P)	3-room flat
Median income (50P)	4-room flat
Upper-middle income (70P)	5-room flat

- They accumulate CPF savings as they work, and use **all** the CPF savings accumulated to purchase a CPF LIFE Plan which provides them with a retirement income for life starting from their drawdown age of 65.

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Net Income Replacement Rate = CPF payouts / Average lifetime net earnings

Numerator: annuity payouts from accumulated CPF savings

- Not taxable

Denominator = average lifetime net earnings

- pre-retirement net earning
- replacing pre-retirement **spendable income** rather than gross income.
i.e. deduct personal income tax and contribution to CPF from gross earning

For other countries, spendable income is derived after deducting mortgage payments, if homes are fully paid up upon retirement

Singapore: mortgage payments not deducted

Reason: part of the CPF contributions would have been used to pay the monthly mortgage and house down-payments for most HDB home buyers.

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Incorporating imputed rent in IRR

- Highlighted in OECD Pensions at a Glance
 - Homes are both consumption and investment goods
 - How to calculate imputed rent?
 - The cash value of the benefit that owners derive from living in their own home
- Use estimated market rent of the flat if the flat was rented out unfurnished net of maintenance cost
- **DOS**: estimate imputed rents based on the annual assessed values (AAV), which the Inland Revenue Authority of Singapore (IRAS) uses to compute the property tax payable.

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IRR and imputed rent by DOS

	30P	50P	70P	30P	50P	70P
Imputed Rent	\$486	\$541	\$560	\$486	\$541	\$560
Male	CPF-LIFE Standard Plan			CPF-LIFE Basic Plan		
Without imputed rent	72.6%	63.2%	59.5%	66.2%	57.7%	54.4%
With imputed rent	77.6%	68.2%	63.2%	72.3%	63.5%	58.5%
Difference	4.9%	5.0%	3.7%	6.1%	5.8%	4.2%
Female						
Without imputed rent	69.1%	60.6%	60.3%	65.9%	57.8%	57.5%
With imputed rent	75.3%	66.6%	64.7%	72.7%	64.3%	62.3%
Difference	6.2%	6.0%	4.5%	6.8%	6.5%	4.8%

Taking into account imputed rent replacement rates will increase by 5% to 10% - depending on the annuity plans, gender and the income percentiles

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Revisiting concepts of Net imputed rent

- gross rental value of the house less the cost of house-ownership
 - distinction between pre- and post-retirement net imputed rent
 - Pre-retirement net imputed rent
 - property tax, house maintenance and interest mortgage payment are deducted from gross rent
 - Post-retirement imputed rent
 - do not deduct the interest mortgage expense.
- pre-retirement net imputed rent is smaller than the post- retirement net imputed rent

Flat Types	Subletting Rental Rate	Property Tax	Mortgage Interest Payments	Home Maintenance for Non-retiree Household	Home Maintenance for Retiree Household	Pre-Retirement Net imputed Rent (per person)	Post-Retirement Net imputed Rent (per person)
3R	\$1,713	\$42	\$134	\$107	\$79	\$715	\$796
4R	\$2,086	\$57	\$241	\$183	\$121	\$803	\$954
5R	\$2,310	\$66	\$308	\$280	\$148	\$828	\$1,048

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Pre- and Post- retirement net imputed rent

	CPF-LIFE Standard Plan			CPF-LIFE Basic Plan		
	30P	50P	70P	30P	50P	70P
Pre-retirement net imputed rent	\$715	\$803	\$828	\$715	\$803	\$828
Post-retirement net imputed rent	\$796	\$954	\$1,048	\$796	\$954	\$1,048
Male	30P	50P	70P	30P	50P	70P
Without imputed rent	72.6%	63.2%	59.5%	66.2%	57.7%	54.4%
With imputed rent	82.1%	73.8%	68.2%	77.2%	69.3%	63.7%
Difference	12.4%	12.6%	10.0%	13.7%	13.4%	10.5%
Female	30P	50P	70P	30P	50P	70P
Without imputed rent	69.1%	60.6%	60.3%	65.9%	57.8%	57.5%
With imputed rent	80.4%	72.9%	70.7%	78.1%	70.7%	68.4%
Difference	14.8%	14.7%	12.2%	15.5%	15.2%	12.6%

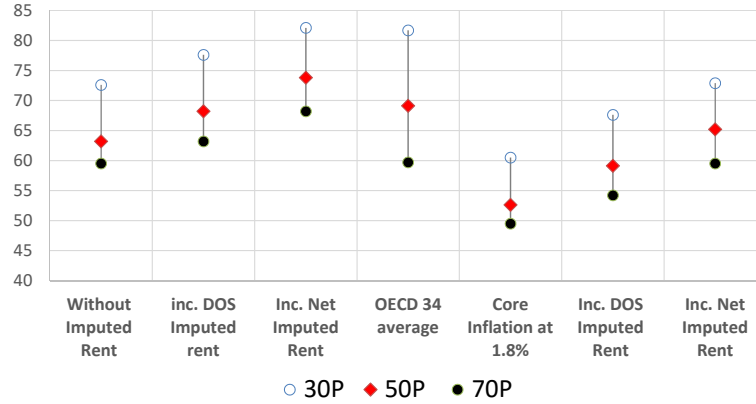
Taking into account net imputed rent replacement rates will increase by 10% to 15% - depending on the annuity plans, gender and the income percentiles

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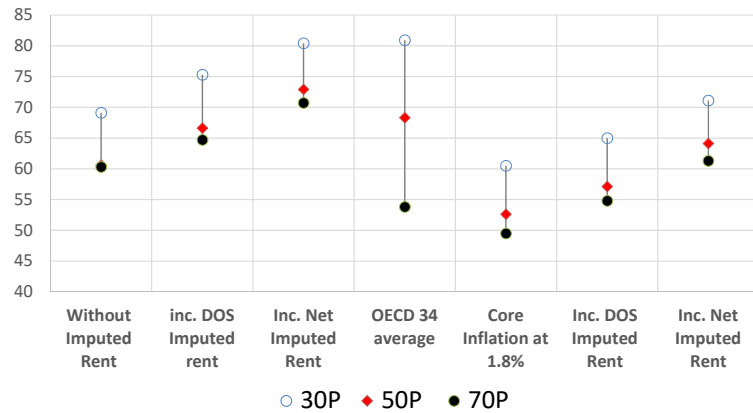
Variants of IRRs for male entrant workers



IRRs computed using CPF payouts from CPFLIFE standard plan

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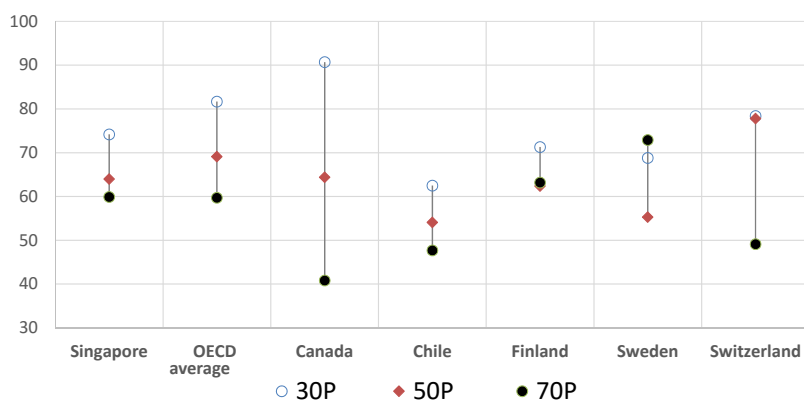
Variants of IRRs for female entrant workers



IRRs computed using CPF payouts from CPFLIFE standard plan

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Net Income Replacement Rates "B" Grade Countries in the 2016 Mercer Global Pension Index



Source: OECD Pension at a Glance

Notes:

1. 30P proxied by 0.5M, 70P by 1.5M for OECD countries
2. IRRs for Singapore are from author's computations (include pre-retirement withdrawals for housing)

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Retirement Adequacy: Net Replacement Rate with Imputed Rent

- Home ownership rate in Singapore at 90.5% is higher than the OECD average at 62%
- Income replacement rates with imputed rents will better reflect the state of retirement adequacy in Singapore
- home-owner retirees enjoy significant savings in rental costs
- ➔ more cash income available for consumption
- Rental costs would have been the largest expenditure item for most healthy retirees if they were renters
- Rental cost could take up about 37% of the household budget
- Taking into account imputed rent replacement rates will increase by 5% to 15%
- depending on the annuity plans, gender and the income percentiles

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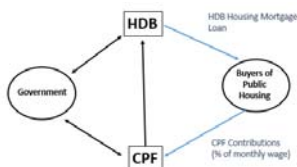
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POLICY INNOVATIONS

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Innovative Policy Responses



Home Owners through pre-retirement withdrawals from CPF (1968)

- CPF-HDB Financing Link made 90% of Singaporeans home owners
- Asset-rich retirees
- Housing Equity Release Option:
Lease buyback scheme , Subletting, Rightsizing, Reverse Mortgage (?)

Silver Support Scheme (2016)

- supplements incomes of lifelong low income elderly with less retirement support.
- no need to apply for Silver Support.
- bottom 20% of Singaporeans aged 65 and above, with a smaller degree of support extended to cover up to 30% of elderly.
- Payout per quarter: \$750/\$600/450/300

Pioneer Generation Package (2014-2015)

- S\$8 billion fund set up to finance the package - Historically unprecedented in capital seed size for any Singapore endowment or trust fund scheme
- 16 times larger than the S\$500 million Medifund Silver Fund launched in 2007 in response to an ageing population.

MediShield Life (2015)

- Universal coverage
- Age 90 cap limit removed
- include pre-existing conditions

EldersShield Life ??

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Reverse Mortgage Products in Singapore

- In the late 1990s, NTUC Income had introduced RM
- Around 2006, the Oversea-Chinese Banking Corporation Limited (“OCBC”) also marketed the product.
- March 2014, the Minister for Housing and Development had announced that the Ministry “has begun serious study of the [reverse mortgage] option” and was looking at ways to broaden the scheme.

Notes:

Negative equity is the main risk associated with RM

The lender (RM provider) agrees to an annuity amount tied to the value of the property valued at the time of the contract. A “negative equity” situation could happen in the event of the downside of the property market so that the loan amount exceeds the value of the property.

To mitigate this risk, interest rates for equity release products tend to be higher than that of conventional mortgages, which makes the equity release products unattractive.

For a complete market, need a public supplier with access to lower costs of capital and lower transaction cost.

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Lease Buyback Scheme

- allows elderly home owners to sell part of the remaining lease of their flats to HDB.
- This allows them to “unlock” part of their housing equity while continue living in their homes and receive a lifelong income stream to supplement their retirement income.
- **Age in place:** elderly continue to stay in their flat.
- **March 2009**
 - LBS launched but received a lukewarm response.
 - ➔ between 2009 to 2012, only 471 household took part in the scheme
- **2012:** Rules on LSB relaxed to include
 - homeowners who have enjoyed more than one housing subsidy
 - private property owners
 - ➔ another 312 households signed up.

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Enhanced Lease Buyback Scheme April 2015

- include four-room flats (previously only 3-R and smaller)
- household income ceiling raised from \$3,000 to \$10,000, and later further upped to \$12,000.
- cover three-quarters of elderly HDB households, compared to 35 per cent previously.
- flexibility in the length of lease retained,
Previously, the only option was to retain 30 years of the lease, flat owners can now choose the length of lease to be retained, from 15 to 35 years, as long as it covers the youngest owner till age 95
- flexibility in the requirement to annuitize the LBS proceeds
- Cash bonus : when they sell the tail-end lease of their flats to HDB and use their net proceeds to top up their CPF Retirement Account (RAs) to the specified top-up requirements
 - 3-room and below: up to \$20,000 (previously \$10,000)
 - 4-room: up to \$10,000

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Enhanced Lease Buyback Scheme April 2015

Response:

- Some 541 households have taken up the scheme between April 2015 and March 2016.
- Of these, 233 households live in four-room flats, and
- nearly half, or 261 households, chose to retain a lease length other than 30 years.
- About 5 per cent, or 27 households, had a monthly income exceeding \$3,000.

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Policy Issue and Challenge: Lifecycle Approach and Impact on Housing Market

- Singapore has taken a lifecycle approach towards the public housing system, catering to the needs of young couples and the elderly.
- Such lifecycle approach leads to housing policy dilemma
- ➔ But house prices have to be kept affordable for young first time home buyers
housing grant schemes to continue to help young couples to be homeowners.

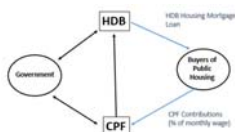
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Policy Issue and Challenge: Lifecycle Approach and Impact on Housing Market

- Home is both consumption and investment good
 - ➔ house prices need to rise adequately to be unlocked for retirement
 - ➔ risk of negative housing equity
- Is housing always an appreciating asset?
 - growing concerns on property values with shortening HDB lease
- increase in supply of HDB flats in the resale market as elderly participate in the monetization market at the same time
e.g. elderly sells their existing flat to rightsize.
The increase stock of resale units will affect the balance in the public housing market.

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Innovative Policy Responses



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Eldershield Life ??

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Silver Support Scheme: Eligibility

Singapore citizen aged 65 and above, and must meet all of the following criteria:

- Total CPF contributions of not more than \$70,000 by age 55.
- Self-employed persons should also have an average annual net trade income of not more than \$22,800 when they were between the ages of 45 and 54.
- Live in an HDB flat that is 5 room or smaller.
- Not own, and not have a spouse who owns, a 5room or larger HDB flat or private property or multiple properties.
- Live in a household with a monthly income per person of not more than \$1,100
- Payouts per quarter \$750/\$600/\$450/\$300 depending on housing type

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Table 1 Average Annual Household Income from Work and Government Transfers*
Per Household Member Among Resident Households by Type of Dwelling

	Total ¹	HDB 1- & 2-Room Flats ²	HDB 3-Room Flats	HDB 4-Room Flats	HDB 5-Room & Executive Flats	Condo-miniums & Other Apartments	Landed Properties
Dollar							
2015							
Annual Household Income from Work Per Household Member	39,273	10,359	25,617	30,302	38,167	81,907	62,497
Government Transfers	3,985	9,318	3,723	3,791	4,129	2,806	3,016
2014							
Annual Household Income from Work Per Household Member	36,737	8,330	23,391	27,894	36,510	74,847	66,659
Government Transfers	3,515	9,313	3,375	3,397	3,538	2,168	2,455

Notes:

Household income from work includes employer CPF contributions.

*- Refer to glossary for the Government transfers that were included in this paper. Government transfers for 2015 are preliminary.

¹ "Total" includes other types of dwelling not shown, e.g. non-HDB shophouses etc.

² Includes HDB studio apartments.

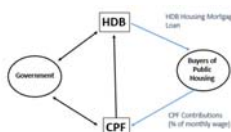
Source: DOS, Household Income Trends

Households with older persons would receive more transfers on average from Schemes such as Pioneer Generation Package and GSTV-Senior Bonus and may Also receive more healthcare related subsidies as they generally consume more services.

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Innovative Policy Responses



Home Owners through pre-retirement withdrawals from CPF (1968)

- CPF-HDB Financing Link made 90% of Singaporeans home owners
- Asset-rich retirees
- Housing Equity Release Option:
Lease buyback scheme , Subletting, Rightsizing, Reverse Mortgage (?)

Silver Support Scheme (2016)

- supplements incomes of lifelong low income elderly with less retirement support.
- no need to apply for Silver Support.
- bottom 20% of Singaporeans aged 65 and above, with a smaller degree of support extended to cover up to 30% of elderly.
- Payout per quarter: \$750/\$600/450/300

Pioneer Generation Package (2014-2015)

- S\$8 billion fund set up to finance the package - Historically unprecedented in capital seed size for any Singapore endowment or trust fund scheme
- 16 times larger than the S\$500 million Medifund Silver Fund launched in 2007 in response to an ageing population.

MediShield Life (2015)

- Universal coverage
- Age 90 cap limit removed
- include pre-©ChiaNgeeChoon's

Eldershield Life ??

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Prefunding Ageing Population

- **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

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Pioneer Generation Package

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Introduction and Motivation | Housing and Retirement Policies | IRR and Imputed Rent | **Policy Innovations** | Conclusion

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Pioneer Generation Package

Outpatient Care

- receive additional subsidies on top of existing subsidised services and medication at polyclinics & Specialist Outpatient Clinics.
- enjoy subsidies at participating GP and dental clinics under CHAS.

Medisave Top-ups

- receive Medisave top-ups in their Medisave Accounts annually for life.

MediShield Life

- Support for all Pioneers' MediShield Life Premiums with special premium subsidies and Medisave top-ups.
- pay less premiums for MediShield Life than Medishield.

Disability Assistance

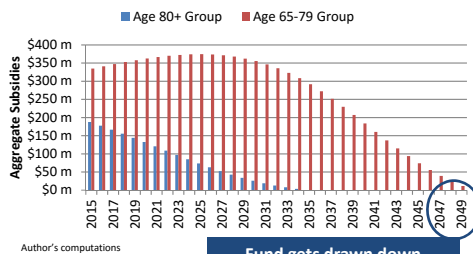
- Cash of \$1,200 a year for those with moderate to severe functional disabilities under the Pioneer Generation Disability Assistance Scheme.

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Pioneer Generation Package:

Our estimations indicated the package is adequate in covering healthcare subsidies for the current elderly cohort

ESTIMATED PIONEER GENERATION FUND SUBSIDIES (NOMINAL)



ESTIMATED PIONEER GENERATION PACKAGE (PRESENT VALUE)

	Age 80+ (2014)	Age 65-79 (2014)	Total
Subsidy per person	\$2,400	\$1,000	
NPV, r=2.75% (\$ billion)			
2.5% inflation	1.58	5.56	7.14
4.0% inflation	1.71	6.49	8.20
5.0% inflation	1.80	7.24	9.04

Author's computations

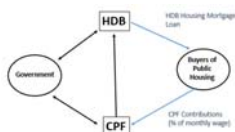
Allocated Package
\$8 billion fund + \$1 billion return = \$9 billion

Assume:

- Cover full premiums for older pioneers and half of the premiums for younger pioneers
- More than a 40% margin over pre-MediShield Life premium structure
- to account for the subsidies of outpatient costs

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Innovative Policy Responses



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- Asset-rich retirees
- Monetization Option: Lease buyback scheme



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- Universal coverage
- Age 90 cap limit removed
- include pre-existing conditions

Eldershield Life???

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Medishield LIFE (November 2015)

- to provide better protection against large hospital bills
- for all Singaporeans for life.
- to keep MediShield Life premiums affordable, the Government provide subsidies:
 1. Premium subsidies of up to 50% for the **lower- and middle-income**;
 2. Special premium subsidies of up to 60% and Medisave top-ups of up to \$800 for the **Pioneer Generation**;
 3. Transitional subsidies for all Singaporeans, to help ease the shift to MediShield Life over four years;
 4. Additional premium support for **needy** Singaporeans

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Concluding Remark

- Retirement adequacy is multi-faceted
- Beyond “at-a-glance” based on income replacement rates only
- Living standards in retirement depend
 - Annuity payouts during the payout phase
 - Living arrangement, Homeowners vs renters
 - Monetization options and other income transfers
 - Healthcare financing
 - Publicly-provided/ subsidized healthcare

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