

An Assessment of Singapore's Policy Responses to Ageing, Inequality, and Poverty

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Organization

- The Context
- Ageing Trends
- Policy Responses I:
 - CPF: How Useful for Addressing Ageing Challenges?
- Policy Responses II:
 - Other Social Policies for Ageing
- Concluding Remarks

The Context/1

- Singapore is an affluent country which is rapidly ageing, but is open to large-scale net migration. It wants to keep ethnic composition (Chinese 77%, Malay 13%, Indians 6%) unchanged.
- Roughly 30% of the population is foreign (Table 1). This is understated as citizenship has been granted liberally, averaging 8280 persons per year during 2001-2005 (equivalent to 0.27 percent of citizens in 2005).

Table 1: Singapore: Population Composition, 2005

	Number (‘000)	Percent
Total population	4,351	100.0
Citizens	3,113	71.5
Permanent Residents	441	10.1
Non-resident population	798	18.3

Source: Chua (2007)

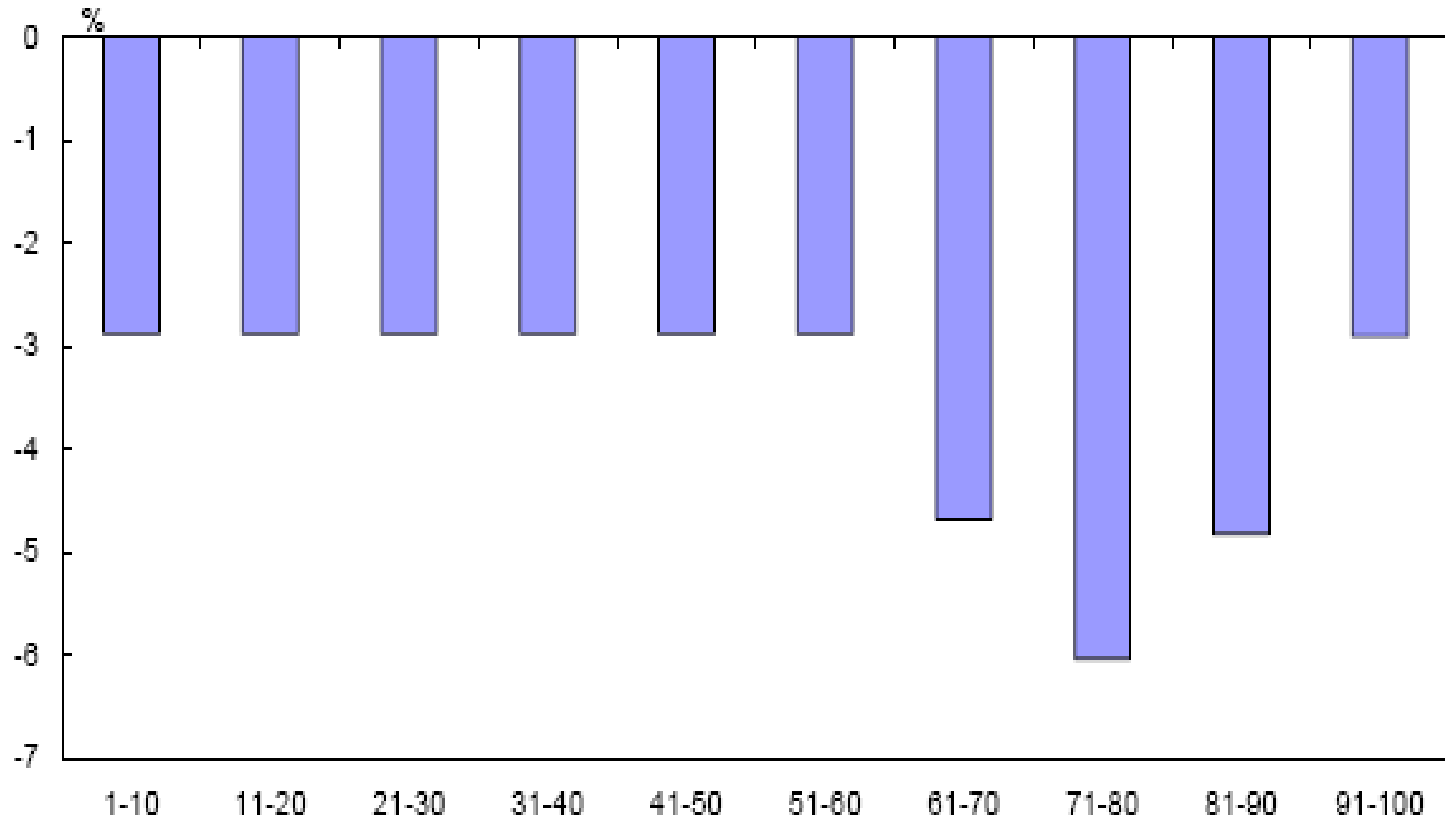
The Context/2

- Large net immigration is positive for growth, but raises subtle and profound issues for Singapore's identity, political and social management. Data secrecy precludes more detailed analysis of net immigration trends.
- Singapore will be ageing rapidly, particularly after 2010 (Table 3).
- Income inequalities, as measured by Gini coefficient, has increased from 0.43 in 1990 to 0.52 in 2005; the wage share in GDP has been declining; and nearly 40% of households at the bottom experienced decline in real income between 2000 and 2005.

The Context/3

- The combined effect of CPF and tax changes since 2001 have had negative impact on wages, particularly for the upper middle income groups (Figure 1).
- However, as capital income has been increasingly more liberally treated (for example, interest income is exempt from income tax), the higher income groups are more likely to have recouped the losses in wage income.
- The may partly explain increased inequalities in income and wealth in Singapore.

Figure 1: An Upper Middle-Class Squeeze (Cumulative % Impact on Wages from Both CPF and Tax Changes across Income Decile Groups, 2001-07)



Source: Citigroup estimates. For fuller discussion, see Hak Bin Chua, Singapore: Restructuring and an Upper Middle-Class Squeeze, Citigroup Asia Macro Views, 4 August 2006.

The top bracket of personal tax rate has been reduced from 28% in 2001 to 20% in 2007: and the company tax rate has been reduced from 26% in 2000 to 20% in 2006 and maybe reduced to 18% in 2007. In 2007, personal income tax rate ranged from 3.5% to 20%, with six brackets.

The Context/3

- Singapore's revealed preference for single-minded high growth has contributed significantly to the above outcomes.
- There are questions being raised about the high-growth strategy (Trofimov, 2007; Bhaskaran, 2007).
- The issue of meeting the challenges of ageing and of globalization is being debated anew as concern over adverse political fallout of current policies mount.
- It is in the above context that this presentation analyzes Singapore's policy responses to ageing and globalization.

Ageing Trends/1

- Demographic trend towards lower fertility rates, and higher life expectancy is evident worldwide (Table 2).
- Many countries in Asia, particularly China and India, will become old before they become high income economies.
- The pace of ageing is therefore as much of a concern as the level.

Table 2: Demographic Indicators in selected Asian and OECD countries

Country	Total Population Median Variant (millions)		Average annual rate of change of population		Total Fertility Rate		Median Age		Life Expectancy at Birth		Percentage of total population aged 60 and above		Population aged 60 and above (millions)	
	2005	2050	2005	2050	2005	2050	2005	2050	2005	2050	2006	2050	2006	2050
World	6464.8	9075.9	1.21	0.3	2.6	2.0	28.1	37.8	65.4	75.1	11	22	687.9	1968.1
Asia														
China	1315.8	1392.3	0.65	-0.3	1.7	1.8	32.6	44.8	71.5	78.7	11	31	147.7	431.5
Malaysia	25.2	43.1	1.80	1.4	2.6	1.8	24.7	39.3	72.2	79.9	7	22	1.8	8.4
India	1103.4	1592.7	1.55	0.3	3.0	1.8	24.3	38.7	63.1	75.9	8	21	89.9	329.6
Indonesia	223.0	285.0	1.30	0.8	2.2	1.8	26.5	40.5	69.6	76.9	8	24	19.0	67.3
Japan	128.1	112.2	0.17	-0.4	1.3	1.8	42.9	52.3	81.9	88.3	27	42	34.7	46.7
Korea	47.8	44.6	0.44	-0.8	1.2	1.7	35.1	53.9	76.8	84.4	11	41	6.7	18.4
Philippines	83.1	127.7	1.84	0.3	3.2	1.8	22.2	37.9	70.2	78.6	6	20	2.5	25.3
Singapore	4.1	5.2	1.60	0.2	1.3	1.8	37.5	52.1	78.6	84.5	13	38	0.5	1.9
Thailand	64.0	75.0	0.70	0.2	1.8	1.8	30.5	42.5	72.0	79.1	11	28	8.9	20.7
Vietnam	84.2	116.6	1.37	0.1	2.3	1.8	24.9	41.3	70.4	78.9	7	26	6.3	29.7
Selected OECD														
Germany	82.9	78.8	0.08	-0.1	1.3	1.8	42.1	47.4	78.6	83.7	25	33	20.8	25.5
U.S	298.2	394.9	0.97	0.3	2.0	1.8	36.1	41.1	79.0	83.5	17	26	50.9	104.4
U.K	59.7	67.1	0.34	0.1	1.6	1.8	39.0	42.9	77.9	82.4	21	29	12.8	19.7

Ageing Trends/2

- How Asia will address ageing challenges will have profound impact on the extent to which the world addresses this challenge.
- There are possibilities of lesson drawing by low and medium income Asian economies from the experiences of Japan, Korea, Taiwan, and Singapore.

Ageing Trends/3

- Singapore will have among the most rapidly ageing population in the world (Table 2 and 3).
- Life expectancy at age 65 was 16.8 years for men, and 19.3 years for women in 2005. These are expected to increase.
- Its 65+ population will increase by 392% between 2000 and 2030.
- Its old-old (i.e. 80+) population will increase by 506% during the same period.

Table 3**Indicators of Ageing in Singapore**

Year	Population aged 65+ <i>Medium Variant</i>		Population aged 80+ <i>Medium Variant</i>		Dependency Ratios <i>Medium variant</i>			Working-age/ Elderly
	(thousands)	(Percent)	(thousands)	(Percent)	(Total)	(Child)	(Old-age)	
2000	287	7.2	48	1.2	41	31	10	10.0
2010	461	10.0	88	1.9	35	21	13	7.7
2020	871	17.5	153	3.1	43	18	25	4.0
2030	1411	26.8	291	5.5	69	24	45	2.2
2050	1632	31.3	730	14.0	78	23	56	1.8

Source: Calculated from Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, *World Population Prospects: The 2004 Revision and World Urbanization Prospects: The 2003 Revision*, <http://esa.un.org/unpp>, 29 January 2007; 8:32:16 PM.

Ageing Trends/4

- The above implies that healthcare financing must be considered in conjunction with retirement financing (Asher and Nandy, 2006a).
- While in 2000, there were 10 workers for one aged, by 2030, this will reduce to 2.2. As retirement is not uniformly at age 65, the actual figure may be lower.

Policy Responses I/1

- Singapore relies on a single-tier CPF system, plus narrowly focused social schemes, supported by individual income tax incentives to address the need of the elderly, and meet ageing challenges.
- CPF system is quite complex, and has come to dominate Singapore's policy responses towards housing, retirement financing, healthcare, and other objectives (Asher and Nandy, 2006).
- Here we focus on the adequacy of the CPF system to provide recommended replacement ratio between two-thirds and three-fourths of pre-retirement income, with requisite longevity and inflation risks protection, and survivors' and disability benefits.

Policy Responses I/2

- Policymakers do not regard socio-economic information as a public good but as a strategic resource to be used tactically.
- This, along with heavily constrained environment for vigorous public policy debates, greatly hampers the analysis of the CPF system.

Policy Responses I/3

- It is now reluctantly acknowledged in Singapore that the CPF system will not be adequate to meet the ageing challenges.
- There are several reasons for this inadequacy. A single-tier, involving mandatory-savings, can never provide adequate replacement rate; or address inflation and longevity risks; or provide survivor and disability benefits (Asher and Nandy, 2006b).
- A well designed multi-tier system is needed, as has recently been recognized in Chile.
- Design and governance issues also act against the adequacy objective; and so does the tendency to use the CPF system as short-term stabilization instrument.

Policy Responses I/4

- Given its multiple focus, the proportion of contributions withdrawn during the pre-retirement period is very high, averaging 81.8% during 2001-2005 period (Table 4).
- The share of contributions devoted to retirement is therefore low. In some years, discretionary policy measures have reduced the CPF contributions towards retirement to zero.
- The average balance per member was less than per capita GDP, suggesting utter inadequacy for financing long life expected for the average member (Table 5).

Table 4: Singapore, CPF: Contributions and Withdrawals (2001-2005)

Year	Contributions (S\$ million)	Withdrawals (S\$ million)	Withdrawals/ Contributions (%)
2001	18322	18860	103
2002	16165	14821	92
2003	15870	11816	74
2004	15320	10310	67
2005	16105	11776	73
Avg. for 2001-2005	16356	13517	82

Source: Calculated from the CPF Annual Report 2005

Table 5: Singapore, CPF: Balances of Total Members (2001-2006)

Year	Total Number (in million)	Total Balance (SGD billion)	Average Balance (SGD)
2001	2.92	92.2	31550
2002	2.96	96.4	32542
2003	2.98	103.5	34768
2004	3.02	111.9	37069
2005	3.05	119.8	39300
2006 (Sept.)	3.09	124.3	40, 234

The average balance per member is only about SGD 40,000, equivalent to only 90 percent of 20 per capita GDP. In 2005, active members were 45.3% of total members.

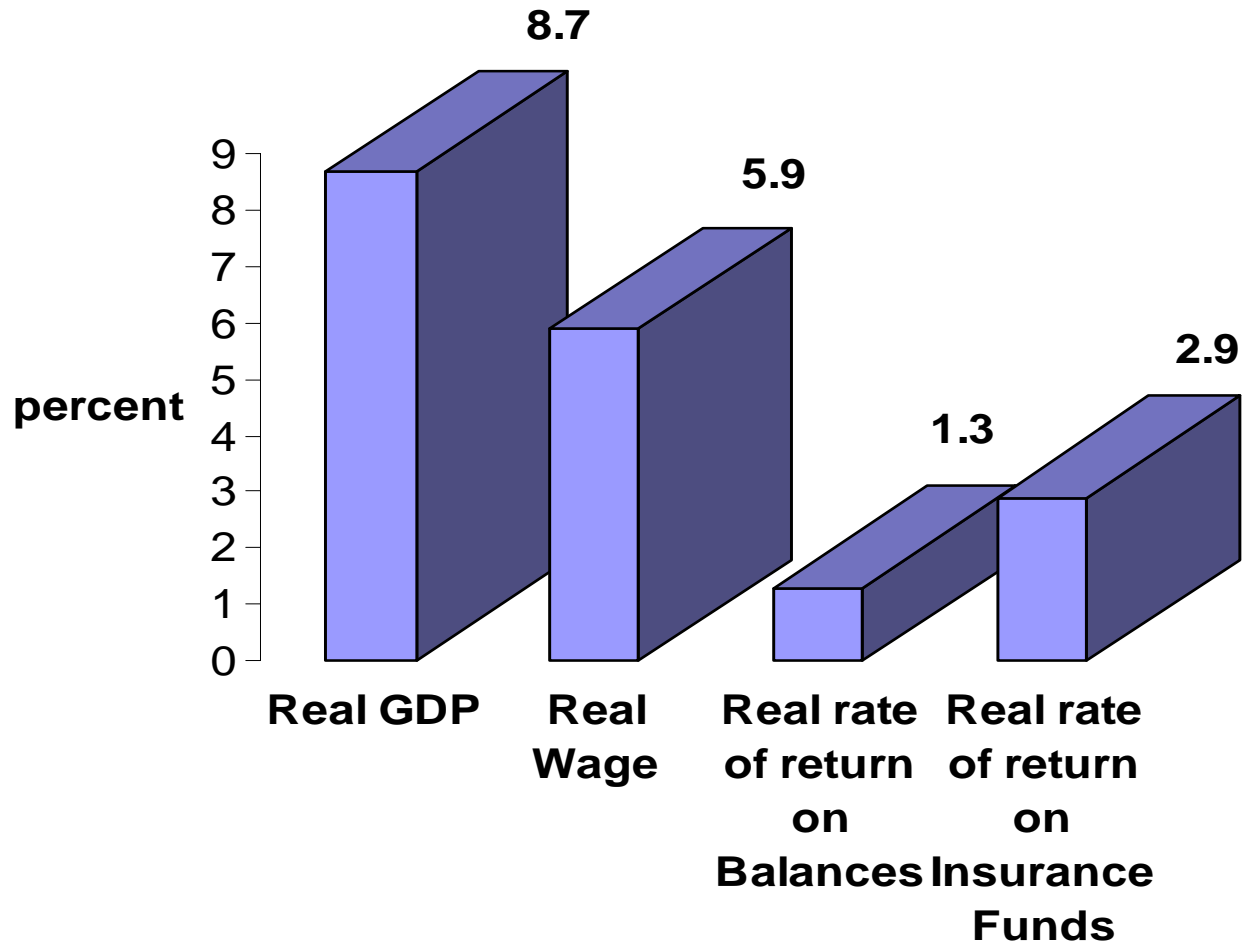
Source: Calculated from CPF Annual Report; CPF Website: <http://www.cpf.gov.sg>

Policy Responses I/5

- The administered interest rate structure, and lack of transparency and accountability in the ultimate investments of CPF balances (S\$124.3 billion as of September 2006) have meant low real returns on these balances (Figure 2).
- As the returns are lower than their corresponding growth in GDP and real wages, the replacement rate is also likely to be low.

Figure 2

**Singapore: Real rates of return on CPF balances
(1987-2005)**



Note: The rate of return for insurance funds is for 1987-2004 period.

Source: Calculated from Various official sources by the Author

Policy Responses I/6

- As the government does not want to release data for estimating replacement rates on the basis of actual CPF cash balances, the only technique available is simulation analysis.
- Analysis by McCarthy et. al. (2002) suggest that in 2001 the real replacement rate was 28% for the base case (Table 6).
- Since then, both the wage base and the CPF rate have been reduced substantially, thus reducing the replacement rate to about half of the base rate. This is clearly inadequate.

Table 6: Sensitivity of Results to Potential Policy Changes

	A	B	C	D	E
	Total Wealth (\$000)	Proportion in Housing	Replacement rate		IRR on Property
			Earnings	Subsistence	
1 Base Case	1774.3	75%	28%	296%	5.82%
CPF Changes					
2. Both CPF Accts ROR up from 0% /1.5 % to 5% real	2052.6	65%	34%	359%	4.60%
3. % to Special CPF Acct up from 4% to 8%	1800.3	74%	30%	319%	5.34%
4. CPF contribution ceiling held at 0% nominal instead of 0% real	1598.5	83%	17%	186%	5.23%
5. CPF contribution rates lowered from 40% to 30%	1604.6	83%	14%	148%	4.61 %
HDB Changes					
6. ROR on HDB property falls 4% real to 0% real	768.5	36%	32%	339%	0.77%
7. ROR on HDB property 4% real->10 years, 0% real thereafter	749.1	37%	30%	322%	0.47%
8. ROR on HDB property 4% real->10 years, 0% real thereafter	1797.6	74%	30%	316%	6.04%
9. ROR on HDB property 0% real->10 years, 4% real thereafter	2296.2	77%	34%	364%	7.42%
9.HDB resale levy falls from 22.5%/25% to 0%	2037.8	65%	49%	526%	8.84%
10. HDB capital subsidy doubles in nominal terms					24

Notes: Author's (McCarthy et al.) calculation; assumes male head of household married to same age non-working wife.
Source: McCarty, Mitchell and Piggott (2002).

Policy Responses I/7

- Anticipated CPF Changes in 2007-08 Budget
 - Indications are that CPF will not be used for short-term macro stabilization to lower business costs, and reduce wages.
 - This has been promised before, but not followed earlier. Will it be different this time?
 - The 2007 Budget will raise CPF contribution rate by employers by 2 percentage points to 15 percent for employees 50 years or below; but whether this will apply to those above 50 years is not clear.

Policy Responses I/8

- Wage ceiling of S\$4500 per month (reduced from S\$6500 few years earlier) is not likely to be increased.
- Increase in GST from 5% to 7 % will act as a large tax on CPF wealth, and will be highly regressive. No proposals to offset this tax on CPF wealth are under consideration.
- The positive impact of increase in contribution rate will be counterbalanced by the negative impact of tax on CPF wealth. The net effect will vary according to different households and could be negative, at least in the initial years.

Policy Responses II/1

- Details of making the workfare scheme more permanent are also expected.
- Singapore has several social programs to meet the needs of the poor, the aged, and assist workers to cope with high growth strategy based on high net in-migration.
- It has also introduced several initiatives, primarily based on income-tax incentives, to increase the TFR.
- Case-by-case, stringent means-tested approaches, which by definition have high transaction costs are preferred.

Policy Responses II/2

- When the number of elderly increases rapidly after 2010 (Table 3), such methods are unlikely to be appropriate as the transaction costs will be quite high.
- Ad-hoc social welfare schemes of Singapore are also inequitable (Ramesh, 2004).
- As yet, there is no evidence of rethinking towards more generalized entitlement based criteria.

Policy Responses II/3

- There are many schemes but the detailed data on their operations are scarce.
- Singapore lacks tradition of undertaking publicly available data-intensive rigorous analytical studies to assess the actual outcomes of these schemes.

Policy Responses II/4

- Singapore has no official poverty line
- Absolute poverty is based on the Minimum Household Expenditure (Actual expenditure for subsistence budget x 1.25). Approx. 35% of households.
- Relative poverty is half of the median per capita household income. Approx. 27% of households.
- Working definition - the poor / low income group is basically bottom 30th percentile of households, that is with average monthly household income from work equal to \$1862 or below. Approx 227,400 households.

Policy Responses II/5

- Singapore has a limited public assistance program.
- Less than 5% of households in the low income group are beneficiaries of state funded systems; and only 0.07% of the population received public assistance in 2004.
- The amount of assistance is kept deliberately extremely low at around 5-8% of per capita income.

Policy Responses II/5

- Table 7 summarizes provisions of different type of social welfare schemes in Singapore.

Table 7: Selected social welfare programs

	<i>Schemes</i>	<i>Forms of aid</i>	<i>Eligibility</i>
Living Expenses	Public Assistance (PA) & Special Grant (SG)	Cash grants Medical aid Education grants	Aged destitute Medically unfit for work Abandoned/distressed wives and orphans Widows with children under 12 years
	Rent & Utilities Assistance (RUAS)	Assistance for arrears in rent or utilities payments	Must live in 1- or 2-room rented HDB flats Monthly household income cannot exceed \$1,100 for a household of 4 or more.
	Interim Financial Assistance (IFAS)	Cash grant for up to 6 months	Temporarily unemployed, no other means of support, needy families with arrears in living expenses.

Table 7: Selected social welfare programs (contd.)

	<i>Schemes</i>	<i>Forms of aid</i>	<i>Eligibility</i>
Employment	Work Assistance Programme (WAP) (3 months)	Job placement Monthly allowance up to \$400 Educational assistance for children Grant for utilities	Unemployed and medically fit for work with monthly household income < \$1500
Family	Home ownership plus education (HOPE)	Housing grant Training grant Education bursary One-off grant for utilities Family support Mentoring support	Married couples with 1-2 children Husband and wife must have at most 2 'O' level Monthly household income of < \$1500 Wife's age < 35 years

Table 7: Selected social welfare programs (contd.)

	<i>Schemes</i>	<i>Forms of aid</i>	<i>Eligibility</i>
Disability	Interim Disability Assistance Programme for the Elderly (IDAPE)	A form of insurance for those not eligible for ElderShield due to their age or pre-existing disability.	>40 years old or >70 when they are disabled (after 30.9.02) Unable to perform >3 ADL Per capital monthly income of \$1000 and below.
Health-care	Medifund	\$1 billion endowment fund set up by state to finance healthcare costs of needy patients.	Those with difficulties paying for medical bills despite Medisave & MediShield. Medical social worker must assess.

Table 7: Selected social welfare programs (contd.)

	Schemes	Forms of Aid	Eligibility
Pre-school	Centre-based financial assistance (CFAC)	Subsidy for childcare fees Start-up grant	Household income <\$1500
	Kindergarten financial assistance (KiFAS)	Subsidy of 75% of monthly fees, up to \$50 per month, whichever is lower.	Household income <\$1500 Only at selected non-profit kindergartens.
Family formation	Children development co-savings schemes	First to fourth child receive a cash gift of upto S\$6000; and co-savings (Dollar-to-dollar matching) of upto S\$12000 from the government	Citizens; available until the child is 6 years old.

Policy Responses II/6

- Personal Income Tax Concessions
 - In addition to exemption of employee CPF contribution from personal income tax (for year of assessment 2005, the CPF deductions were S\$5.6 billion), and the employer contribution from company income-tax, three other personal income-tax related measures which are relevant are:
 - Qualifying Child Relief (QCR)
 - Working Mother's Child Relief (WMCR) (for citizens only) (The total deduction under the above two schemes was S\$1.4 billion in 2005)
 - WMCR ranges from 5% of mother's earned income for the first child to 25% for the fourth child.
 - Maximum for QCR and WMCR = S\$25,000 per child

Policy Responses II/7

- Relief for Foreign Maid Levy (deduction of S\$246 million in 2005)
- Qualifying woman may deduct twice the amount of foreign maid levy against earned income.
- Parenthood Tax Rebate (PTR) (For citizens only)
 - It is S\$10,000 for the second, and S\$20,000 for the third, and for the fourth child.
 - PTR can be offset against either or both spouses income tax.
 - PTR can be carried forward until fully utilized.

Policy Responses II/8

- Only 0.73 million persons, equivalent to 31 percent of the labor force, paid income tax in 2005.
- So the income tax based arrangements are regressive, with most of the subsidies going to upper-middle and high income groups. But these are the individuals with greater choice, and lower fertility rates. This inherently limits the effectiveness of income-tax incentives for increasing TFR.

Policy Responses II/9

WORKFARE BONUS SCHEME (WBS)

- The WBS, introduced in May 2006, is a means-tested grant scheme for the employed and self-employed older citizens (i.e. those above 40 years of age).
- Means testing involves evidence of six continuous month of paid work during the previous year, with average monthly income of S\$1500 or less, and living in a property with an annual value of S\$ 10,000 or less.
- There are indications that more conditions, such as contributing to Medical Saving Account may be added.
- More extensive and stringent the criteria, the lower the proportion of the potential target workers which can qualify.

Policy Responses II/10

- The grant amount varies from S\$75 to S\$600, but is provided in the subsequent year, reducing its real value. 90 percent of the grant is cash, and 10 percent is credited to the CPF account.
- For a qualifying worker earning S\$1500 a month for six months, the grant will be S\$200, or 2.2 percent of the income. This is negligible as a social safety net.
- The 2007 Budget is expected to announce the details of how the WBS will be made a permanent feature.
- The WBS, as currently structured, is not likely to provide significant positive incentives for greater work effort.
- Its transaction costs are however likely to be high.

Policy Responses II/11

CHILDREN DEVELOPMENT CO-SAVINGS (BABY BONUS) SCHEME (introduced in 2001)

- Children of citizens (first to fourth child) receive a cash gift of S\$6000 and co-savings, i.e. a dollar for dollar matching of upto S\$12,000 per child by the government. The scheme applies until the child is six years old.

Education Accounts

- Likely to be unveiled in February 2007 budget
- Would be like vouchers paid to individuals for post-secondary education.
- Amounts are likely to be small, at least initially.

Policy Responses II/12

- The community organizations also play a role.
- All assistance schemes (including direct transfers) are administered by community agencies such as
 - Community Development Councils
 - National Council of Social Services
 - Voluntary welfare organizations
 - Self-help or religious groups
- Most community agencies are partially funded by the state through subventions or matching donations; and they also have close connections with the ruling party.

Concluding Remarks/1

- Singapore has attempted to pursue its own path towards managing ageing and globalization challenges.
- It has relied on single tier mandatory savings scheme (CPF) for housing (primarily); for health care (minor importance quantitatively but major ideologically); and retirement.
- It has many schemes, designed to increase social-political control of the ruling party, with stringent means-testing.

Concluding Remarks/2

- The end result of these social policies has been to make individuals and their families bear disproportionate risks of old-age and low incomes with grossly inadequate social risk pooling which is the hallmark of the OECD countries.

Concluding Remarks/3

- The CPF system, and the current extensive set of schemes will become even more inadequate, inefficient, and inequitable:
 - as economic growth reflects mature affluent economy
 - as number of aged increases rapidly after 2010, significantly raising transaction costs of case-by-case approach used currently;
 - as limits of relying on large net in-migration (while keeping its ethnic balance) become evident.
 - as political impact of rising inequalities (Gini - 0.52) and stagnant incomes of nearly half the households begins to manifest itself.

Concluding Remarks/4

- Singapore has the fiscal, institutional, and organizational capacity to make rapid progress towards more adequate, efficient, and equitable multi-tier system.
- But this will require fundamental changes in the political and social philosophy.