Singapore's effective housing and retirement policies

Rapidly rising home prices throughout the Asia Pacific region are focusing attention on housing and housing wealth's role in enhancing financial security for families and individuals as they move into retirement.

During the past several years, our media has continuously trumpeted that many working-class Singaporeans have become "millionaires", a large proportion of their total assets are from increasing Housing and Development Board (HDB) flat values.

About 85 per cent of Singaporeans and permanent residents live in such flats, built during the past four decades as affordable housing for the masses. In total 95 per cent of all Singaporeans are home owners.

"The flats have been a valuable investment as most of them command market values more than double their purchase prices."[1]

Table 1 : Median resale prices (SGD) by town and flat type for resale cases registered in 4th Quarter 2011

TOWNS	1-ROOM	2-ROOM	3-ROOM	4-ROOM	5-ROOM	EXECUTIVE
ANG MO KIO	-	*	$341,500	$468,000	$606,400	*
BEDOK	-	*	$331,500	$430,000	$545,000	*
BISHAN	-	-	*	$500,000	$650,000	*
BUKIT BATOK	-	-	$320,000	$427,000	$546,000	*
BUKIT MERAH	*	*	$376,500	$578,500	$712,000	-
BUKIT PANJANG	-	-	*	$404,900	$482,900	$565,000
BUKIT TIMAH	-	-	*	*	*	*
CENTRAL	-	*	$426,500	*	*	-
CHOA CHU KANG	-	-	*	$409,500	$465,000	$571,000
CLEMENTI	-	-	$361,300	$506,000	*	*
GEYLANG	-	*	$313,000	$495,000	*	*
HOUGANG	-	-	$331,500	$423,000	$517,500	$595,000
JURONG EAST	-	-	$325,000	$415,500	$495,000	*
JURONG WEST	-	-	$300,000	$400,500	$475,000	$569,000
KALLANG/WHAMPOA	-	*	$345,000	$515,500	$639,000	*
MARINE PARADE	-	-	*	*	*	-
PASIR RIS	-	-	-	$439,000	$500,000	$620,000
PUNGGOL	-	-	-	$475,000	$521,500	*
QUEENSTOWN	-	*	$370,000	$651,000	*	*
SEMBAWANG	-	-	-	$415,000	$465,000	$525,000

[1] Ng Edward, "Central Provident Fund in Singapore - a capital market boost or drag",

TOWNS	1-ROOM	2-ROOM	3-ROOM	4-ROOM	5-ROOM	EXECUTIVE
SEMBAWANG	-	-	-	$415,000	$465,000	$525,000
SENGKANG	-	-	-	$450,000	$511,000	$590,000
SERANGOON	-	*	$340,000	$467,500	$565,000	*
TAMPINES	-	-	$356,000	$450,000	$525,000	$630,000
TOA PAYOH	-	*	$348,000	$481,500	$645,000	*
WOODLANDS	-	*	$302,500	$392,000	$446,500	$565,000
YISHUN -	-	$312,000	$382,000	$487,000	$574,500	

Source: www.hdb.gov.sg

Public policy objectives

Singapore's success in providing home ownership to a majority of its middle-income working people can largely be attributable to a combination of decades of steadily rising housing prices that drove demand and its Central Provident Fund (CPF), that was initially set up in 1955 as a mandatory retirement scheme under the British colonial government.[2]

Using their Ordinary Account CPF funds, Singaporeans were able make down payments and low-interest monthly payments on subsidized HDB flats built by the government.

After Singapore achieved self-government in 1959, its CPF scheme evolved substantially. Although retaining its primary role as a retirement pension fund, its functions were expanded to including funding medical expenses as well as property and financial investments.

"Today the CPF Board is more like a mandatory savings bank, a significant portion of whose assets can be channeled to "desirable" activities like home ownership."

CPF contributions

Initially, in 1955 employers and employees each contributed five per cent of the employees total wages to the CPF.

Overtime these contributions were adjusted up and down depending on government needs and changing business cycles. In 1984 CPF contributions reached as high as 50 percent of an employee's compensation (half paid by employer and half paid by employee). (see Table 2)

2 ibid

3 ibid

In 1972, the employers and employees CPF contributions became less symmetric, when employers began paying higher percentages than employees.

The Singapore government has always used the CPF scheme as a central social and economic policy tool while at the same time preserving its retirement saving's elements.

Today, a Singaporean's CPF contributions serve three broad objectives.[3] The first is to preserve and enhance the individual's integrity and well-being by allowing them to use CPF savings for housing, health care, life and health insurance, risky investments (including property) education or retirement.

The second objective is strengthening family institutions, something the government believes is essential to social stability.

In 1986, the CPF scheme evolved into a third "national" purpose during the second year of its first post-independence recession. "To help the country retain its competitiveness, the employer's CPF contributions were drastically slashed from 25 percent to 10 percent."

This policy decision reduced Singapore's total labor costs and helped drive its subsequent recovery.

Table 2 : Central provident fund contribution rates, 1955-1994 (percent of salary)

	Contributed by		Credited to			
Date[a]	Employer	Employee	Ordinary Account	Special Account[b]	Medisave Account[c]	Total
Jul 1955	5.0	5.0	n.a.	n.a.	n.a.	10.0
Sep 1968	6.5	6.5	n.a.	n.a.	n.a.	13.0
Jan 1970	8.0	8.0	n.a.	n.a.	n.a.	16.0
Jan 1971	10.0	10.0	n.a.	n.a.	n.a.	20.0
Jul 1972	14.0	10.0	n.a.	n.a.	n.a.	24.0
Jul 1973	15.0	11.0	n.a.	n.a.	n.a.	26.0
Jul 1974	15.0	15.0	n.a.	n.a.	n.a.	30.0
Jul 1977	15.5	15.5	30.0	1.0	n.a.	31.0
Jul 1978	16.5	16.5	30.0	3.0	n.a.	33.0
Jul 1979	20.5	16.5	30.0	7.0	n.a.	37.0

Date[a]	Contributed by		Credited to			
	Employer	Employee	Ordinary Account	Special Account[b]	Medisave Account[c]	Total
Jul 1980	20.5	18.0	32.0	6.5	n.a.	38.5
Jul 1981	20.5	22.0	38.5	4.0	n.a.	42.5
Jul 1982	22.0	23.0	40.0	5.0	n.a.	45.0
Jul 1983	23.0	23.0	40.0	6.0	n.a.	46.0
Jul 1984	25.0	25.0	40.0	4.0	6.0	50.0
Apr 1986	10.0	25.0	29.0	n.a.	6.0	35.0
Jul 1988[d]	12.0	24.0	30.0	n.a.	6.0	36.0
Jul 1989	15.0	23.0	30.0	2.0	6.0	38.0
Jul 1990	16.5	23.0	30.0	3.5	6.0	39.5
Jul 1991	17.5	22.5	30.0	4.0	6.0	40.0
Jul 1992	18.0	22.0	30.0	4.0	6.0	40.0
Jul 1993	18.5	21.5	30.0	4.0	6.0	40.0
Jul 1994[e]	20.0	20.0	30.0	4.0	6.0	40.0

Na = not available

a Years in which the contribution rates were the same as the previous year's are excluded.

b Contributions to the Special Account were suspended from 1986 to 1988 when the economy was in recession.

c Since 1986, amounts above S$15,000 in the Medisave Account have gone to the Ordinary Account.

d In 1988, contributions from the various five-year age brackets above the age of 55 were set at a declining rate.

e In September 2011, the total contribution rate was 36 per cent

Continue funding retirements

Although the CPF was initially a retirement scheme that mushroomed into a government social and economic policy fund, it still continues to provide retirement security for its members.

An individual's CPF contributions today are primarily separated into three different accounts: a Special account is set aside so that upon retirement the retiree will have enough savings to buy a subsistence levels single life annuity (at 62).

"The rationale for this "Minimum Sum" level is to ensure that retirees have retirement income streams without selling their homes."[4]

Another part of the CPF contributions is placed into a Medisave account that pays for hospitalization and approved medical insurance. Table two shows that out of a sample $40 total month CPF contribution about $4 goes into the special account and $6 goes in to the Medisave account. The amounts are age-adjusted.

By far the largest amount of each CPF payment is credited to an Ordinary account ($30 out of $40). The Ordinary accounts can be used for approved investments including housing, insurance, tertiary education and for topping off parents' retirement accounts.

CPF members can use up to 100 per cent of their Ordinary Account savings as down payments for subsidized HDB houses or flats and use their entire Ordinary Account contributions to service low-interest mortgages which are explicitly set at 0.1 percent about the floating nominal account interest rate which is currently 2.5 per cent.

The mortgage rate is especially attractive when you consider that the real return on housing has been in excess of four percent for the past several decades.

Table 3 : HDP flats-average new (original) & resale prices

Period	Room Type	Internal sq m (Avg)	New S$ (Avg)	Resale S$ (Avg)	Remarks
1970s	3 room	60	$15,000	-	
	4 room	75	$20,000	-	Construction cost-based pricing approach
	5 room	95	$30,000	-	
	3 room	65	$50,000	-	Construction cost-based and land-based pricing approach
1980s sharp rise@81 (a)	4 room	90	$80,000	-	
	5 room	115	$110,000	-	

[4] McCarthy David, Mitchell, Olivia, Piggott, John, "Asset rich and cash poor: retirement provision and housing policy in Singapore", page 206, Cambridge University Press, November 202

Period	Room Type	Internal sq m (Avg)	New S$ (Avg)	Resale S$ (Avg)	Remarks
	Executive	140	$140,000	-	
	3 room	70	$120,000	$200,000	
1990s sharp rise@93 till 97	4 room	95	$170,000	$270,000	
	5 room	125	$230,000	$350,000	
	Executive	145	$280,000	$420,000	
	3 room	65	$110,000	$150,000	Construction cost-based and market land-based pricing approach
2000s (b)	4 room	90	$180,000	$230,000	
	5 room	110	$240,000	$290,000	
	Executive	130	$300,000	$350,000	
	3 room	65	$140,000	$200,000	Construction cost-based and market resale-based pricing approach
2007s sharp rise@2008 (c)	4 room	90	$230,000	$300,000	
	5 room	110	$290,000	$370,000	
	Executive	130	$350,000	$450,000	
	3 room	65	$291,000		
2010 (d)	4 room	90	$376,300	$420,300	Median house price (including approximate transaction cost)
	5 room	110	$448,700		
	Executive	130	$535,900		

(a) Average floor sizes increased for new flats built from 1981.

(b) Average floor sizes decreased for new flat builts from 2000 but with premium design finishing except 3-rm unit.

(c) Price increases 2008 due to rising construction costs (sand and concrete)

(d) Straits Times, 4 August 2010

Housing wealth as a major retirement asset

While most observers in the Asia Pacific laud the success of Singapore's CPF's housing provision and funding schemes, some researchers say that it has made many Singaporean retirees asset rich and cash poor.[5]

The McCarthy et al study said that the typical Singaporean worker is expected to have about 75 per cent of his retirement assets in housing from age 50 until retirement. "The concentration of retirement wealth in housing is much higher than in the US, for instance, where housing wealth for the median older household, amounts to only 20 per cent of retirement wealth, including social security entitlements."

They also argue that the annuitized liquid income Singapore pensioners receive at 62 would leave many of them in cash binds.

Accessing housing equity

The researchers said that these retirees could do much better if they could access some the equity in their houses.

In his study "Housing wealth as retirement saving: does the Australian model lead to over-consumption of housing?", Bruce Bradbury offered the following suggestions to help Australian house asset-rich retirees.[6]

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5 ibid

6 Paper prepared for the 30th General Conference of the International Association for reseaech in income and Wealth, Portoroz, Slovenis, August 2008

"Policy options to increase the ability of the elderly to take better advantage of their housing wealth might include stamp duty concessions to enable down-valuing, housing supply interventions to ensure an adequate supply of suitable smaller dwellings for the elderly and a greater role for the state (or for new private sector institutions) in managing the longevity and other risks associated with reverse mortgage and similar schemes."

Despite the above concerns for the average retired Singapore's liquidity at retirement most developing or fully-developed country policy makers would be ecstatic if a large majority of their working-class retirees are able to retire at the age of 62 with a million dollars of retirement assets.