

시] Singapore's Multi-Pillar System of Social Security

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ABSTRACT

The paper describes and analyzes the multipillar system of social security in Singapore with reference to the five pillars of social security outlined in the World Bank's 2005 policy note *Old-Age Income Support in the 21st Century*.

The paper shows that Singapore has a weak Zero pillar and a non-existent First pillar. Its public assistance schemes impose tough eligibility conditions and offer paltry benefits. The scheme is shaped by the Singapore government's antipathy towards "hand-outs" and, as a corollary, emphasis on self-reliance, hard-work, thrift, and family support. But in recent years the government has had to reckon with uncertain economic conditions, stagnant wages for low-skill workers, growing long-term poverty, and rising income inequality. It has responded through ad hoc assistance but is currently considering more long-term programs. However, it has made it clear that the assistance program it develops will not be of the "welfare" sort found in Western countries.

The lynchpin in the Singapore's social security system is the Central Provident Fund (CPF), which is a Second pillar compulsory savings scheme. The scheme has near-universal coverage and very high contribution rates. However, the scheme provides inadequate income protection during old age due to low returns and withdrawals for housing and other purposes. The lack of redistributive features innate to Defined Contribution schemes leaves nearly half the members inadequately covered, especially those on low or no income during their working lives.

Singapore recently established a Third Pillar voluntary retirement savings program called the Supplementary Retirement Scheme (SRS). The coverage of the scheme and the benefits it offers are modest. These are not a significant drawback, however, as there is already a robust individual savings scheme in the form of CPF.

The Fourth pillar in Singapore is remarkably wide and robust. Home ownership is near-universal and housing has offered good investment returns in the past. However, the housing market has been in recession for almost a decade and it is feared that it will never offer the returns available in the heydays of the early 1990s. Family support too is remarkably strong and widespread in Singapore. But, again, increasing female participation in the labourforce and declining family size is weakening the pillar.

All in all, Singapore has the essential foundations of a strong social security system, marred by a weak basic pillars. Designing a meaningful and sustainable public assistance system is the key challenge facing the government. The government continues to hope that it will be able to establish such programs without turning Singapore into a welfare state.

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The People's Action Party (PAP), which first came to office in 1959 and has ruled the country since, inherited a feeble and residual social security system from the British and the basic structure remains intact to this date. Indeed the only substantive change that has occurred in the last four decades is the expansion and reinforcement of the Central Provident Fund (CPF). As a result, Singapore has had only a strong Second pillar, to use the World Bank's terminology. It has also had a strong Fourth Pillar in the form of family support and home ownership. But these mechanisms are now recognized as inadequate and the government is gradually beginning to recognize the importance of a strong state-funded basic pillar for those who cannot be protected through contributory systems. However, the government remains firm in its opposition to establishing anything resembling a Western welfare state built on the notion of entitlement to statutory social protection.

Historical Synopsis

Singapore has had a provident fund, the CPF, since long before 'individual retirement account' (IRA) became popular in policy discussions in the mid-1990s. PF is similar to IRA in every respect except that it is centrally pooled and managed by the government rather than private managers. Investment returns are determined by the government and everyone receives the same rate. Otherwise, both are compulsory Defined Contribution (DC) arrangements which specify the level of contribution rather than benefits typical of social insurance arrangements, also known as Defined Benefits (DB). Both are based on the principle of save-as-you-earn (SAYE), as distinct from the pay-as-you-go (PAYG) principle characteristic of DB schemes.

Both are also fully funded in the sense that members' benefit is equal to the balance in their personal account, imposing no actual or accrued liability on the government.

The CPF was established in the context of grim economic conditions following the Second World War. Its establishment involved a lot of deliberations, even though the government largely ignored the recommendations. The McFadzean Commission established in 1951 to inquire into the feasibility of a retirement scheme emphatically rejected provident fund as an option on the grounds it would not provide adequate benefits to the target population and instead recommended a contributory pension scheme paying subsistence-level benefits. But the Report failed to persuade the government, which went on to promulgate the Central Provident Fund Ordinance in 1953 and implement it in 1955. The decision was based more on the colonial government's reluctance to establish a program that might involve significant public expenditure rather than a belief in its greater efficiency or effectiveness. The fact that Malaysia, with which Singapore had a common labor market, already had such a scheme made its adoption all the more convenient (Parrott, 2000).

Soon after CPF's launch, the government realized its limitations and established the Committee on Minimum Standards of Livelihood which submitted its report in 1957. In the same year, an ILO team reviewed the social security arrangements in Singapore and recommended reforms. In separate reports, the two recommended establishment of a contributory social insurance scheme providing retirement, survivor and sickness benefits. They also recommended strengthening of the public assistance scheme to supplement social insurance. However, by 1959 the PAP was in office and it was even less keen than the colonial rulers about social insurance (Low and Aw, 1997).

The CPF was originally established as an interim measure to provide retirement income. In the subsequent decades, however, the scheme was not only retained but expanded as the government began to appreciate its potential for pursuing a range of social and economic policy objectives: housing, economic development, and health care, in addition to maintaining income. Indeed it is hard to think of any social security arrangement anywhere in the world which is intended to serve such a variety of goals.

At its inception, the emphasis of the CPF scheme was on providing retirement income for old age. Despite calls from unions to allow workers to withdraw their savings should they fall ill or become unemployed, the CPF Board adhered to the rule that CPF savings could only be withdrawn upon retirement. This stand prevailed until the mid-1960s when the government began to recognize that financial security could take many forms, and need not be restricted to a monetary payoff each month. The first move towards liberalization came in September 1968, when the home ownership scheme was introduced to allow members to finance the purchase of HDB flats with their CPF savings.

Since then, the CPF has been slowly liberalized to meet the changing needs of an increasingly sophisticated and educated labor force. Currently, members can use their CPF savings for a host of schemes, including those for retirement, home ownership, investments, health care, insurance or college loans. But the most salient features of the scheme have not changed since 1955, i.e. it is compulsory, its basic principle is thrift and self help; and the contributions made by each member are earmarked for the benefit of the individual, with no redistribution among members. The government has also adjusted CPF contribution rates in line with its macroeconomic objectives from time to time.

In July 2002, a high power government committee looked into the CPF and concluded that 'The CPF system is fundamentally sound' (Singapore, Economic Review Committee, 2002). It affirmed that the 'CPF should continue to cater to the three key needs of retirement expenditure, healthcare and home ownership.' However, it noted the insufficiency of funds for retirement and healthcare and recommended ameliorative measures. The government did not act on the recommendations – indeed it reduced employers' contribution, on the grounds of maintaining Singapore's wage competitiveness in relation to other Asian countries.

There is also a public assistance scheme in Singapore which has existed since colonial times. It is steeped in the British poor house tradition with an emphasis on helping only those in abject poverty and with no other means of support. The eligibility and benefits conditions are designed to make it unattractive to all but the most unfortunate. However, the government is currently considering a revamp in the face of rising income inequality and long-term poverty.

Multi-Pillar System: Introduction

The notion of multi-pillar security is a creation of the World Bank though others have talked about it in general terms for decades. Its first full enunciation is to be found in the World Bank's 1995 Report *Averting the Old Age Crisis* which recommended three pillars of social security for all countries. The recommendations was a source of inspiration and prescription for scores of countries around the world which reformed their social security system during the late 1990s and early 2000s.

After almost a decade of experience with reforms along the lines proposed by the Bank, in 2005 a group of World Bank's staff members led by the Director of the Social Protection unit, Robert Holzmann, published "a policy note" which significantly revised the 1994 Report. The new document represents a clear, if still controversial, exposition of a multi-pillar system of social security. The document is notable for its reflective analysis of the problems faced by the aged and consideration of a expanded range of mechanisms for dealing with them. It proposes a multipillar system consisting of five (rather than only three, proposed by the 1994 report) complementary components.

The Five Pillars of Old Age Income Security

Pillar	Objective	Financing	Program Features	Equivalent scheme in Singapore
0	Poverty alleviation, through redistribution	Government's general revenues	•Mandatory •Publicly managed •Means tested •Minimum Benefits	Paltry Public Assistance. Ad hoc financial relief.
1 st	Income replacement, with some redistributive component	Contribution, employer and/or employee on PAYG or partially funded basis	•Mandatory •Publicly managed •Defined Benefits or Notional Defined Contributions •Earning-related benefit	Nil
2 nd	Income smoothing, through savings	Tax-Preferred private savings or private insurance. Fully funded.	•Mandatory •Privately managed •Defined Contributions •Benefits equal contribution plus returns on investment	CPF (which includes provisions for retirement, health, housing and education)
3 rd	Income smoothing, through enhanced savings	Tax-Preferred private saving. Fully funded.	•Voluntary •Privately managed •Fully Funded Defined Benefits or Defined Contribution •Benefits equal contribution plus returns on investment	Supplementary Retirement Scheme
4 th	Continuing protection where possible	Financial and other assets	•Voluntary •Privately and informally managed •Informal intra-family or inter-generational financial and non-financial help. Eg. Housing, healthcare	High level of Family support. High level of home ownership.

The Zero Pillar is meant to be an essential pillar in the pension edifice in all countries, rich and poor. It corresponds to the first pillar of the 1994 Report but is given a more central role in the new formulation. It is meant to provide a minimal level of protection to all those without sufficient income during retirement. The benefits may be in the form of universal benefit available to all elderly or means-tested public assistance available only to the needy. Eligibility conditions are meant to be flexible so as to include all those who need support. The funding for it is to come from the government's general revenues, as contribution requirement would have the effect of excluding some potential beneficiaries.

The proposed First Pillar is a new proposal targeted at the working poor, those who don't or can't save, and those who face unusually high longevity or market risks (eg. financial market collapse at the time of retirement). As the document sums it: "First pillars address, among others, risks of individual myopia, low earnings even within the formal economy, and inappropriate

planning horizons due to uncertainties of life expectancies and financial market risks... (Holzmann et al. 2005: 37).” The structure of the program may be of Defined Benefits or “Notional” Defined Contribution (NDC) types. While the benefits are to be related to income, the relationship is to be loose so as to allow some redistribution to those who need additional support. It is to be financed from contribution by employers and employees on a PAYG basis though there is scope for some pre-funding. The level of contribution, and consequently benefits, is to be modest so as to not impose heavy tax burden on members or promote work disincentives.

The Second And Third Pillars, similar to their namesakes in the 1994 document, are designed to promote savings for retirement so that subscribers can enjoy a higher standard of living than the minimum standard made available under the zero and first pillars. However, the second pillar is mandatory while the third pillar is voluntary so as that only those who can afford to save more take advantage of the latter in the form of tax concessions. Both pillars may be designed in a way so as to provide longevity insurance in the form of periodic annuities for life.

The Fourth Pillar is an entirely new proposal and is in response to the recognition that informal mechanisms play a vital role in providing income protection to the aged and others. Family members and home ownership are vital sources of income and other support and need to be considered while designing an overall income protection system for the aged. However, the report recommends no specific government measure to promote their fourth pillar except to consider its role while designing other pillars and ensuring that they are not undermined.

Singapore’s social security system includes many of these pillars, but there is only one real pillar, the Second, and the rest are non-existent, feeble, or weakening. As we will see in the following discussion, its public assistance is meant only for abject cases and the First Pillar is absent altogether. Its Second Pillar, the CPF, is strong and indeed goes beyond retirement income to include health and housing. Recently, Singapore established a Supplementary Retirement Scheme as the Fourth Pillar. Its Fifth Pillar in the form of family support and home ownership is still strong but is under stress.

The Current Organization of the Social Security in Singapore

Zero pillar: means-tested assistance

The Government's poverty alleviation strategy consists of a Public Assistance scheme, various programs run by the Community Development Councils (CDCs) and the Ministry of Community Development, Youth and Sports (MCYS). There are also numerous *ad hoc* grants and fiscal reliefs that the government occasionally, and increasingly frequently, gives out to lower income groups. There are also tax incentives in place for encouraging private donations to charities by individuals and firms. The government also encourages more social services to be delivered by volunteers. The government calls these disparate measures 'many helping hands' approach to social welfare whereby social assistance and social work is shared between the government and community organizations.

Public Assistance (PA) Scheme is intended to benefit "... financially distressed Singaporeans who by reason of age, illness, disability or unfavourable family circumstances, are unable to work and have no means of subsistence as well as no one to depend upon." (www.cdc.org.sg/services/social.html) Note that the scheme is not for all low-income individuals or households, but only for those who have a good reason for not working **and** have no other source of income or family support. In other words, the scheme is meant to be truly of last resort.

The amount of PA benefit ranges from S\$260 a month for an adult to a maximum of S\$825 for a four-person household. The monthly PA benefit for single adults was equivalent to 8 percent of average monthly gross national income (GNI) in 2003. The per capita benefit was yet smaller for larger households: for instance, for a family of four adults and two children, the benefit was S\$189 per person which was equivalent to 6 percent of monthly per capita GNI in 2003. To get a perspective on the generosity of the PA benefit amount, the average retirement benefit from all basic-tier schemes is around 29 percent of national average earnings across all 30 OECD countries (Whiteford and Whitehouse, 2006). In Singapore, PA recipients also receive free medical care, subsidized housing, discounted utilities, and so on, but these are discretionary and there is no data available on the total value of these benefits.

The total number of individuals receiving PA assistance in 2005 was 2,770, which was a slight increase from 2,409 in 2000, but a decline from 2,867 in 1988 (Ho, 2006). The PA

recipients together former 0.07 percent of the population. An overwhelming majority of the PA recipients – approximately 85 percent of all PA recipients since 1995– are “aged destitutes”, while another 7 percent are “medically unfit for work”, and 6 percent are “disabled persons under 60 years” (Singapore, *Yearbook of Statistics 2006*). Thus the PA scheme is for all practical a program for the aged destitutes and disabled rather than poor. Yet only a small proportion of all aged in Singapore receive PA: the proportion of the elderly population receiving PA has been around 0.8 percent for several years.

Many social welfare benefits in Singapore are offered through the ComCare, which is a S\$1 billion endowment fund established by the government to pay for social assistance programs run by the Community Development Councils (CDCs). The fund provides assistance to families in financial need, especially families with children, aged, and unemployed (Tan, 2005). The number of households receiving financial aid from CDC increased from 14,300 in 2001 to 31,570 in 2003, while the total amount given out doubled from \$14.6 million to \$27 million (Tan, 2005). Thus, in 2003 the average amount of CDC benefit was \$855, which is equivalent to 3 percent of the per capita GNI.

CDC provides tuition fee assistance towards before- and after-hours childcare for school-going children of families with combined family income under S\$2,500. One or both parents need to be working to be eligible for benefits. There are separate means-tested schemes for Child Care for pre-school children from low-income families (Centre-Based Financial Assistance Scheme and Kindergarten Financial Assistance Scheme). The subsidies for kindergarten children can be as much as 75% of the school fees, or up to \$600 per year, whichever is lower.

The Work Support Program helps needy families to find employment and achieve self-reliance. The type of benefit is flexible, depending on the family situation, and includes: Rental and utilities relief; cash grant for meeting basic needs; Childcare subsidies; Training grant; and Educational assistance, and Medical Assistance. The benefits are awarded by the CDCs on a case by case basis. To receive benefits, “The main breadwinner and other adult family members are not able to work; The family has weak support network; and The family has limited or no savings.” (<http://www.cdc.org.sg/services/social.html>)

The Home Ownership Plus Education is an assistance scheme to help young low income families get out of poverty trap by providing housing assistance to poor and young working families so that they can devote their resources on education and skills upgrading. To be eligible, the family must include married couple and no more than two children. The Monthly gross household income should be below S\$1,500. In addition, the education level of both parents should be no higher than secondary schooling and the wife's age should be lower than 35 years. Eligible household receive \$50,000 disbursed in annual installments in the form of housing grants; training grant of up to \$10,000 per family over a 10-year period; A one-off cash grant of \$1,000 to help the family offset utilities bills; and Cash grant of \$6,000-\$9,000 to help the couples with family life education, family planning and parenting skills. Educational bursaries ranging from \$250 to \$2,000 per annum per child is also available for children from pre-school up to University level education, including special education.

The Interim (Short-term) Financial Assistance Scheme (IFAS) offers short term financial help to needy individuals or families who need to tide them over a difficult period. The financial assistance varies from approximately S\$140 to maximum S\$600 per month and the maximum assistance duration varies from two months to one year. The scheme is administered by the Ministry of Community Development.

Rent and Utilities Assistance Scheme (RUAS) assists families residing in small public housing rental apartments who are in arrears of rent, utilities charges and service & conservancy charges to meet such payment. To receive assistance, 1 person household need to have monthly income below S\$240, while 4 person household need to be below S\$710. % OF PER CAPITA INCOME.

There are also several "local" financial assistance schemes which are disbursed by members of parliament. "These are mainly short term, small quantum assistance, and/or certain in-kind assistance e.g. food vouchers."

In line with the government's belief in self-reliance for the poor, the government offers training and employment/re-employment though several job training, course fee subsidization, counseling and job data bank services. Examples include, "Skills Re-development Program",

"Education and Training Fund", "Interest-Free Loan Scheme for Skills Training and Upgrading", and "Employment Placement Assistance Programme".

In 2006, in months leading up to election, the Government distributed \$3.6 billion in Progress Packages and Workfare Bonuses, dubbed “pre-election goodies” by commentators. In recent years, billions of dollars have been given out through various assistance schemes, including New Singapore Shares, Economic Restructuring Shares and CPF Top-Ups. What is notable about these benefits is that they are ad hoc and impose no binding obligation on the government and are available on a purely discretionary basis.

Second pillar: Defined Contributions

There is no first pillar scheme in Singapore in the sense under by the World Bank’s 2005 document. The lynchpin of Singapore’s social security system is its Second Pillar comprising compulsory savings in the form of CPF. It is a compulsory savings scheme for individuals administered by the government.

Participation in CPF is compulsory for employed persons, except for foreign workers (who form a fifth of the labor force), casual and part-time workers, and certain categories of contract workers. Self-employed are required to participate in the Medisave component of the scheme and may participate in the overall scheme on a voluntary basis. As at June 2006, CPF had a membership of 3.08 million, of whom 1.42 million (60 percent of the 2005 labor force) were active contributing members. In other words, nearly two-fifth of the labor force in Singapore are not covered by the PF scheme. Many of the non-covered are, of course, covered under other programs, but still a significant proportion of the labor force remains uncovered. Foreign workers form the bulk of the non-covered in Singapore.

The CPF Board is the trustee of members’ CPF savings. The Board is entrusted to protect and preserve the value of the savings, and provide fair market returns at minimal risk, while opening avenues for members to seek higher returns on their own after carefully considering the risk involved. The government helps by exempting CPF earnings from tax and guaranteeing payment of CPF savings. The Board’s part is to make the assets and services available to help meet Singapore’s social and economic objectives, thereby improving the quality of life of all Singaporeans and CPF members.

Unlike social insurance schemes, the CPF is fully funded - members accumulate assets in their individual accounts, which they later draw upon for their various needs. Contribution to the CPF is compulsory for all employed Singaporeans and permanent residents. Both the employer and employee make monthly contributions to the Fund.

The CPF contribution rate began with 5 percent each for employers and employees in 1955, creeping up to 10 percent each in 1970, reaching the peak of 25 percent each in 1984, then declining to and staying at 20 percent each for much of the 1990s. To improve the older workers' employment prospects, a lower rate of employer-contribution applies to workers older than 55 years of age and yet lower for those above 60 years. Currently, the total contribution rate for workers up to 55 years old is 33 percent for employees up to 55 years, with contributions of 13 percent from the employer and 20 percent from the employee. The percentage changes with age, regardless of the income level. Other rates are 27 percent for those in the "above 50 to 55 years" age group, 18.5 percent for those in the "above 55 to 60 years" age group, 11 percent for those in the "above 60 to 65 years" age group, and 8.5 percent for those above 65 years old (Table 1).

All employees who earn more than \$750 per month are required to contribute to their CPF accounts. For employers, CPF contributions are payable for employees whose wages exceed \$50 a month. The maximum monthly contribution payable for all age groups in 2006 is based on a salary ceiling of \$4,500 a month. Besides providing for CPF members' needs, these rates also encourage the continued employment of older workers.

In most years, CPF contributions have exceeded withdrawals (Figure 1), allowing the fund to accumulate total members' balance of \$ 112.6 billion as at end June 2006. The entire fund is by law invested in Singapore Government Bonds or awaiting to be invested in such bonds.

Reflecting the CPF's multi-purpose role, members' accounts are divided into three separate sub-accounts: Ordinary, Special, and Medisave. The Ordinary Account (OA) can be used for retirement, buying a home, buying CPF insurance, investment and education. The entire balance in the account may be withdrawn for housing but only the sum above the 'minimum sum' may be withdrawn for investment purposes. The Medisave Account can be used to pay hospital bills and approved medical insurance. The Special Account is reserved for old age and contingencies.

At age 55, there is another account, the Retirement Account, created for members for holding compulsory Minimum Sum.

Ordinary Account holds 60-70 percent (depending on age) of one's CPF funds. The Special Account holds 10-20 percent, whereas another 15-20 percent is channeled to the Medisave account (Table 2). Funds in the Ordinary Account earn interest rate tied to the rates offered by local banks, subject to a minimum rate of 2.5 percent per annum. Funds in the Special and Medisave Accounts earn an additional 1.5 percentage points, or a minimum rate of 4 percent per annum. The interest rate is calculated based on a weightage of 80 percent on the 12-month fixed deposit rates and 20 percent on the savings rates of the major local banks. It is reviewed quarterly to keep up with prevailing market interest rates. In 2005, the interest rates was 2.5 percent per annum for the Ordinary Account and 4 percent per annum for the Medisave, Special and Retirement Accountsⁱ and total interest credited into members' accounts amounted to \$3,675.4 million. In *real* terms, the annual returns offered on CPF funds averaged 1.2 percent over the 1987-2004 period which was lower than the growth in GDP (8.7 percent) and income (5.9 percent) in the corresponding period (Asher and Nandy, 2006). This is gradually eroding the replacement rate whose cumulative effect over time is likely to be significant.

In 2005, 44 percent of all withdrawals from CPF was to pay for housing and another 38 percent for investment in approved financial instruments. Withdrawal for housing and investment, thus, form more than three-quarters of all withdrawals, leaving little savings for retirement purposes.

Funds in Special Account is set aside for retirement and may only be withdrawn at the age of 55 years. Since 1987, however, members have been required to leave a minimum sum in the CPF to ensure that members don't fritter away their savings in the early years of retirement. Members who turn 55 between 1 July 2005 and 30 June 2006 were required to set aside a Minimum Sum of \$90,000. Of this, at least \$45,000 must be in cash while the remaining \$45,000 can be pledged with a property. The amount is released in installments from the age of 62 years until it is exhausted. Members are encouraged to buy approved life annuities with their Minimum Sum to give them a guaranteed income for life. Alternatively, they may deposit their savings with approved banks or continue to keep it with the CPF Board.

Withdrawal for retirement (including transfer to Minimum Sum Scheme) formed only 14 percent of all withdrawals in 2005. The Medisave account, which may only be used for paying for hospitalization expenses, accounted for a yet smaller 2.4 percent of all withdrawals that year.

The most important criterion for judging a retirement program is the adequacy of the income it provides its members. The Singapore government claims that the CPF contributions are sufficient to generate a retirement annuity equivalent to 20-49 percent of last take-home income, in addition to paying for housing and medical needs (Low and Aw, 1997: 26). The Economic Review Committee (2002) noted that 'The CPF should focus on the broad majority of the population, between the 10th and 80th percentiles of the income spectrum', implying that it was adequate for the remaining 70 percent of the population. These estimates by the authorities appear highly optimistic.

CPF is estimated to provide replacement income of 27-30 percent (depending on the level of earlier withdrawal) of the last-drawn salary (Lim, 2001: 374; McCarthy et al, 2002: 209). In comparison, the average gross replacement rate for all 2nd Pillar retirement programs across all OECD countries is 57 percent (Whiteford and Whitehouse, 2006). It is projected that 60-70 percent of the 50-55 years age group will not have sufficient funds in their CPF account to meet the minimum sum requirement (Lim, 2001: 374). Lowering of wage ceiling from \$6000 in 2001 to \$4500 in 2006 was likely to further reduce the replacement rate by 10 - 15 percent. Given the one-tier approach to financing retirement, this is clearly inadequate (Asher and Nandy, 2006). The government's own committee admitted that only about 50 percent of members with a full career of CPF contributions would have sufficient in their Special Account to meet even the minimum sum requirement (Economic Review Committee, 2002).

There are several reasons why the CPF is unable to provide adequate income support during retirement despite contribution rates that are high, if not the highest, by international standard. A key reason is pre-retirement withdrawals for a range of purposes which reduces the sum available for retirement. In 2001, a massive 86 percent of the total withdrawals in Singapore were for purposes other than retirement. While housing, health and education are worthwhile purposes, withdrawal of funds to spend on them reduces the amount available for retirement.

Cardarelli (2000) estimates that the removal of housing withdrawal alone in Singapore would double the CPF replacement rate.

The low returns that members earn on their funds is another major reason why provident funds are inadequate, especially in Singapore. As mentioned earlier, between 1987 and 2004, the CPF provided average annual *real* returns of only 1.2 percent, which is well below the 8 percent and more earned by pension funds in many countries. McCarthy et al (2002: 214) estimate that boosting CPF returns over time is the most practical alternative for improving the level of retirement benefits under CPF. The government has encouraged people to earn higher returns by allowing members greater opportunities to invest directly in the financial markets, but the results have been disappointing, as a majority have lost money (*Business Times*, 4 January 2001). The situation has been particularly bad in times of bear market conditions when members would have been better leaving their money with CPF.

A no less important reason for the CPF's inadequacy is the absence of any redistributive mechanism inherent to personal savings schemes. Those on low income or in intermittent employment have little in their fund to withdraw when they reach retirement age. In contrast, redistributive mechanisms built into social insurance, for instance, allows the arrangement to deliver 60 percent replacement income with contribution of only 10 percent of income over 25 years.

Equity is an important criterion by which social security programs are judged. In the case of provident funds, however, they make little difference in that they merely replicate the income distribution generated by the market system. Each member's provident fund balance corresponds to their income – at the age of 55 years, they get what they and their employers have contributed, which is strictly tied to their salary. The high wage inequalities in the country is reflected in the CPF balances: active CPF members with balance (including all withdrawal) below S\$ 20,000 formed 20 percent of all active members but less than 1 percent of the total CPF balance (Singapore, CPF Board Annual Report, 2005). To the extent the share of income channeled to the CPF is exempt from taxes, it is inequitable because the benefit is positively related to income. Indeed, majority of the population in Singapore do not pay any income tax and hence do not receive any tax benefit.

The Singapore government is aware that the CPF is insufficient for low-income households. As the Economic Review Committee (2002) noted: 'Those in the lowest income group (10th percentile and below) cannot rely on CPF alone for their retirement needs... Other social support schemes and policies will be required to supplement the CPF framework for this group.' Even if we accept the 10 percent figure (the actual proportion is probably much higher), there is no public scheme to look after them in a substantive sense. As we saw earlier, public assistance amount is small and available to only a few people.

Third pillar: Voluntary Savings

Similar to the efforts in other countries to establish voluntary privately-financed schemes, the Singapore government established the Supplementary Retirement Scheme (SRS) in 2001. The scheme allows employees (but not their employers) to make voluntary contributions up to S\$11,475 (S\$26,775 for foreign workers) a year into their personal accounts, which can be invested in a variety of financial instruments excluding property (<http://www.mof.gov.sg/taxation/contribution.html>). Contributions and investment gains are exempt from taxes, but half of the withdrawal amount at retirement is subject to tax. The scheme is privately administered by financial institutions approved by the government. Businesses have demanded that they be given the option to contribute to their employees' account, but the government has resisted, understandably concerned that businesses will make large tax-exempt contributions in lieu of salary to their more highly-paid employees. The scheme is likely to appeal to the high-income earners who are able to take advantage of tax concessions and have sufficient cash surplus to put away until the age of 62 years.

In 2005, there were 31,413 SRS accounts, a three-fold increase over 2001 (<http://www.mof.gov.sg/taxation/cumulative.html>). The total SRS contributions amounted to S\$952 million, which translates into S\$30,306 per account holder. Almost 40 percent of the funds were invested in insurance products and 19 percent in mutual funds, while 24 percent was held in cash. Nearly 72 percent of the account holders were between the ages of 36 and 55 years old (<http://www.mof.gov.sg/taxation/cumulative.html>)

Fourth pillar: Family and Housing

Fortunately, the low income support offered by public assistance and CPF schemes is significantly offset by support from family members in Singapore. Around two-fifths of aged male in Singapore and over half of all aged females in the country depend on their children, grand-children and spouse as their main source of income (Jones, 1990). In comparison, 97 percent of the elderly population in the OECD countries on average rely on statutory social welfare programs. [FIND RECENT DATA.] The 1995 National Survey of Senior Citizens in Singapore found that children provided more than three-quarters of the income for 58 percent of the elderly aged 55 years or above. Even then, the aged were hardly in an enviable position, as 79 percent of them had monthly income of below US\$ 584, which was approximately one-third of the national per capita GDP. Having said that, 89 percent of the elderly considered their income sufficient for their expenses (Lim, 2002: 69).

The income support the aged receive from their family members is reinforced by common living arrangements. The percentage of the elderly living alone is only 7 percent in Singapore, confirming that the traditional care system is largely intact. In comparison, in the OECD countries 29 percent of the elderly (65+ years) population lived alone and only 23 percent of the lived with children or family. However, the proportion of the elderly not living with their children is creeping upwards: the share of all-elderly households in Singapore increased from 1.6 percent of all households in 1990 to 2.8 percent in 2000 (Singapore Department of Statistics, 2001).

However, there are worries that as the proportion of the aged increases and the family size shrinks, an increasing number of aged will need additional income support. While Singapore's aged population is still relatively young – only 7 percent in Singapore are 65 years of age or above - it is ageing at one of the fastest rates in the world. For instance, in just twenty-one years the proportion of the aged in Singapore will double from 10 to 20 percent of the population, a process that took 68 years in Sweden and 86 years in Britain (Jones, 1990: 23). The proportion of the population over the age of 65 years will similarly rise from 6.1 in 1990 to 14.5 in 2020 in Singapore. As the aged population expands, so will the need for protecting their income during old age.

While the cultural system in Singapore is likely to continue to ensure that most elderly will live with their family in the short and medium terms, the same cannot be said with certainty for the long-term. As a Singapore government report itself admitted: 'Changes in social and demographic trends in Singapore mean that future retirees cannot rely on their children to the same extent as today's retirees. With longer life expectancies, families with fewer children, and a growing proportion of unmarried retirees, future generations will have to depend more on their own CPF savings for financial security (Economic Review Committee, 2002).'

But even if the family structure remains intact and the aged continue to be looked after within the family, there will be people who will face financial difficulties during old age. Poor people often have poor relatives who do not have the resources to look after their aged kins. Moreover, there are people who do not have family members or, if they do, lack emotional bonds for a variety of reasons and cannot realistically expect help. Again such people will be left without income unless they have sufficient savings or access to state support.

The PAP government regards housing as a vital pillar in its social security system. Singapore has near-universal home ownership, crucially enabled by the CPF's Approved Housing Scheme (1968) which allows members to use funds in their Ordinary Account to pay for purchase of public housing. The use of CPF funds to purchase private housing was permitted in 1981. Buyers of public housing flats are eligible for Housing Development Board loans up to 80 percent (may rise to 90 percent in certain cases) of the selling price for up to 30 years. The interest rate is set at 0.1 percent above the interest offered on savings in the Ordinary Account, which is currently set at 2.5 percent.

The housing scheme within the CPF has been phenomenally successful, as most Singaporeans use it to the fullest extent to purchase their own home. As a result, home ownership in Singapore stands at 90 percent, up from 30 percent in 1970. The enthusiasm for ownership housing is hardly surprising considering that buyers earned average annual *real* returns of 4 percent while Ordinary Account offered nominal returns of only 2.5 percent. It was only rational for CPF members to buy housing than leave the money with CPF (McCarthy et al, 2002). Significantly, most home owners in Singapore are able to service their mortgage loans entirely from their CPF contributions (*Business Times*, 13 March 2000). In other words, Singaporeans are

able to pay for apartments without reduction in their monthly disposable income (Chua, 2000: 49).

There are concerns, however, that the success of the housing scheme has been at the expense of the CPF's main objective of providing retirement income. Nearly half of all CPF withdrawals in a typical year is for housing purposes, leaving little to accumulate for retirement purposes. It is argued that people may be over-investing in housing and thereby jeopardizing their income security during retirement. A typical worker at the age of 50 years and above in Singapore has 73-77 percent of her/his financial assets in housing and only about 20 percent in CPF (McCarthy et al, 2002: 207-9). This is much higher than in the US (where home-ownership is also high), where only 20 percent of retirement wealth is typically in the form of housing.

Housing is, of course, a tradable asset which may be liquidated to generate income during retirement. But there are a number of practical complications which come in the way (Lim, 2002). For reasons particular to Singapore, owners of public housing cannot readily down-grade or reverse-mortgage their property to generate income. A more important concern is the possibility of long-term decline in housing prices which will reduce the value of Singaporeans' most important financial asset. In the meanwhile, the government cannot substantially increase the share channeled to the Special Account (which is reserved for retirement) because of the fear that many CPF members will have difficulty meeting their mortgage commitments which will depress housing prices. Success in housing the population is a major reason for the Singapore government's popularity, indeed legitimacy, and it is unlikely to undermine it, even if it means accepting inferior income maintenance outcomes (Chua, 2000).

Conclusion

The discussion above showed that Singapore has robust Second Pillar in the form of CPF, a strong Fourth Pillar in the form of widespread home ownership and family support, and a reasonably strong Third pillar in Supplementary Retirement Scheme. Its main shortcoming is the absence of a meaningful Zero and First pillars capable of adequately protecting those not covered by other arrangements. Emerging social and economic trends make the need for basic pillars all the more imperative.

The economic recession of the late 1990s and the sluggish conditions of the early 2000s highlighted the vulnerabilities of the population to external economic circumstances, especially in Singapore, which has the world's most globalised economy in terms of dependence on foreign trade and investments. People who lose jobs and livelihood for no fault of their own expect their government and the community to support them in times of need as a part of their citizenship rights.

Stagnant or declining wages for lower skilled and older workers and growing income inequality is aggravating the pressures for an expanded basic income support program. According to the 2005 Census, 5 percent of households - or 50,654 households - earned less than S\$1,000 per month (Singapore, Household Survey 2005. Table A4). According to the same census, approximately 15 percent of the households had either no person with income from work or had one or more working persons with combined income under S\$1,180, an amount less than 10 percent of the average household GNI. It is likely that a large proportion of these households are poor yet do not receive public assistance. It will be recalled that less than 1 percent of the population in Singapore receives public assistance.

The 2005 household survey also showed increasing divergence between the wages of the bottom and top income earners. Over the 2000-2005 period, according to the survey, the bottom income decile had no or negative income, the average income from work of the second lowest income decile declined by 4.3 percent, and the average income of the third lowest income decile declined by 0.5 percent. In contrast, over the same period the average monthly household income of the top income decile increased by 2.8 percent and that of the second-highest decile by 2.4 percent. In other words, the income of the 30 percent poorest population actually declined at the same time as was going up for the richest. These trends are reflected in Singapore's Gini coefficient, which rose from 0.49 in 2000 to 0.52 in 2005 which makes it one of the most unequal countries in the world in terms of income distribution (<http://www.infoplease.com/ipa/A0908770.html>). As the welfare state literature has acknowledged for a long time, wealthy democracies find it difficult to justify highly skewed income distribution.

The Singapore government has itself begun to recognize that the existing programs are insufficient to address the problem of increasing income disparities and thinning economic opportunities for a significant proportion of the population. Recently, the Prime Minister called for “tilting the balance in favor of low-income Singaporeans” and helping them “over many years, not just once in a while”. (*The Straits Times*, November 25, 2006). This is a substantial departure from the government’s earlier position, reflected in a statement by the Minister of Finance Richard Hu as recently as 1997: “Instead of providing large unemployment benefits and price support schemes, we prefer job creation and market competition (Quoted in Cheung, 2000).”

In 2001, the Government established several schemes providing education subsidies for needy children, long-term support for the elderly or disabled, and cash subsidies and job-matching for low-income families. It has also handed out large ad hoc benefits, especially before elections. Just before the 2006 elections, for instance, the government offered S\$150 million as “workfare bonus” to about 9 percent of the population. But these have not been sufficient for the growing problem and the government is looking for more substantive and enduring alternatives.

Yet the government is not willing to seriously compromise its belief in self-reliance and family support for those in need of income support. Recently, the Second Finance Minister Tharman Shanmugaratnam, laid out the following three principles for government support for the poor: “...firstly, it [the government] will focus on training and preparing workers to get jobs rather than protecting a job in particular industry. Secondly, the government will seek to create opportunities for families to move up the social ladder and it will not stint on educational subsidies. Finally, personal savings will continue to be a key feature in helping low-income families to meet future medical and retirement needs.” (*The Straits Times*, November 24, 2006). Nowhere in this statement is there a suggestion of a state-financed zero-pillar benefits for those unable to derive income from market sources. The government believes that it is possible to look after people with no or insufficient income through family and community organization. In November 2006, President Nathan in his speech to the Parliament called for expanding the “many helping hands approach”, with employers, families and community and voluntary welfare groups working together to help the needy in their midst. The approach is imbued by a spirit of paternalism and *noblesse oblige*. As the Prime Minister noted in a recent speech: 'Just like

parents have responsibilities to give *hongbao* to their children, a society too has its responsibilities for its less fortunate members We must help Singaporeans who are experiencing difficulty, and who are willing to work hard and try, to get back on their feet.” (Almenoar, 2005)

The government is particularly concerned about the rise of the “welfare mentality” if the state became an alternative source of income for a significant proportion of the population. As the Prime Minister said in his clarification of the government’s recently announced intention to do more for the poor: "I would like to caution members that we should proceed with care ... it is a real slippery slope. And many, many social-welfare schemes which have ended up in serious trouble have started off with good intentions." He went on to elaborate: "Don't over extend subsidies to people who are not poor. Once we've made a mistake, unwinding is impossible, because once people have been given welfare benefits, it becomes an entitlement, it's permanent, there'll be budget deficits, taxes will have to keep on going up and we'll be in a Scandanavian situation (Quoted in <http://www.channelnewsasia.com/stories/singaporelocalnews/view/241076/1/.html>). Recent surveys by mainstream international organizations showing the Scandinavian countries as having some of the most competitive economies in the world had done little to allay the PAP leaders’ fears of the welfare state.

Table 1: CPF Contribution Rates for 2006

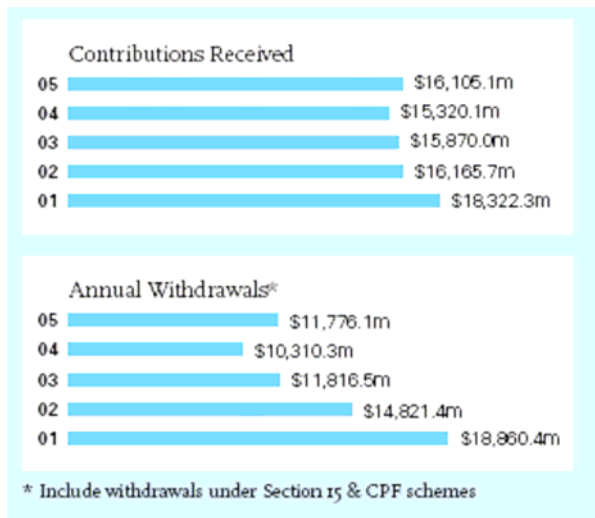
Employee Age (years)	Contribution By Employer (percent of wage)	Contribution By Employee (percent of wage)	Total Contribution (percent of wage)
35 & below	13	20	33
35 - 45	13	20	33
45 - 50	13	20	33
50 - 55	9	18	27
55 - 60	6	12.5	18.5
60 - 65	3.5	7.5	11
65 & above	3.5	5	8.5

Source: <http://mycpf.cpf.gov.sg/Employers/Gen-Info/cpf-Contri/ContriRa.htm> (Last Accessed: October 23, 2006)

Table 2: CPF Contribution and Allocation Rates, 2006

Employee Age (years)	Total Contribution (percent of wage)	Credited Into		
		Ordinary Account (percent)	Special Account (percent)	Medisave Account (percent)
35 & below	33	22	5	6
35 - 45	33	20	6	7
45 - 50	33	18	7	8
50 - 55	27	12	7	8
55 - 60	18.5	10.5	0	8
60 - 65	11	2.5	0	8.5
65 & above	8.5	0	0	8.5

Source: <http://mycpf.cpf.gov.sg/Employers/Gen-Info/cpf-Contri/ContriRa.htm> (Last Accessed: October 23, 2006)

Figure 1: CPF Contributions and withdrawals, Various Years

Source: CPF Board (2005), *Annual Report*.

Table 3: Singapore's Public Assistance Scheme

Singapore Public Assistance Scheme: 2003

Household Type	Monthly Public Assistance Allowance S\$
1 Person	
1 Adult	260
1 Child	260
2 Persons	
• 2 Adults	445
• 1 Adult, 1 Child	535
• 2 Children	535
3 Persons	
• 3 Adults	510
• 2 Adults, 1 Child	600
• 1 Adult, 2 Children	675
• 3 Children	675
4 Persons	
• 4 Adults	590
• 3 Adults, 1 Child	680
• 2 Adults, 2 Children	755
• 1 Adults, 3 Child	825
• 4 Children	825 (maximum)
5 Persons and above	825
Singapore average monthly wages 2003	S\$3,213
Total no. of Public Assistance Scheme recipients	2,551
Singapore's total population	4.3 million

Source: Singapore Statistics Bureau and Ministry of Community Development Services

Source: Pai, 2006.

Table 4: Aged Receivinig Public Assistance in Singapore

Table 5 — Elderly persons receiving Public Assistance against the total elderly population in Singapore

	2000	2001	2002	2003	2004
Number of elderly recipients (a)	1 930	2 128	2 148	2 191	2 331
Total elderly population (b)	237 626	246 500	253 373	264 672	278 952
(a) as a percentage of (b)	0.8%	0.9%	0.8%	0.8%	0.8%

Sources: *Ministry of Community Development, Youth and Sports* (2005), *Ministry of Health* (2005) and Singapore Department of Statistics (2002).

Source: Legislative Council Secretariat document

Table 5:

Table 4 — Income sources of the elderly in Singapore

	Percentage of respondents
Employment earnings	6.1%
Pension or retirement fund	2.6%
Income from rental property, savings, stocks and shares	23.7%
Income from family business	1.5%
Children	78.1%
Relatives	3.8%
Friends or neighbours	0.3%

Source: *Transitions in Health, Wealth, and Welfare of Older Singaporeans: 1995-1999* as quoted from Asher (2004), p.25.

Source: Hong Kong Legislative Council Secretariat

Table 6: Public Expenditure on income support for the elderly poor**Table 1 — Public expenditure on programmes in support of the elderly in poverty as a percentage of Gross Domestic Product and total public expenditure**

	Canada 2003	Australia 2003-04	Singapore 2003	Hong Kong 2003-04
Programme expenditure (a)	CAN\$28,037 million ⁽¹⁾ (HK\$181,927 million)	AUS\$19,553 million ⁽²⁾ (HK\$113,884 million)	S\$6.8 million ⁽³⁾ (HK\$31.4 million)	HK\$11,666 million ⁽⁴⁾
Nominal GDP (b)	CAN\$1,219,000 million (HK\$7,910,547 million)	AUS\$813,183 million (HK\$4,735,864 million)	S\$160,924 million (HK\$743,086 million)	HK\$1,226,427 million
Total public expenditure (c)	CAN\$479,357 million (HK\$3,144,007 million)	AUS\$341,933 million (HK\$2,033,710 million)	S\$19,236 million (HK\$89,288 million)	HK\$247,466 million
(a) as a percentage of (b)	2.3%	2.4%	0.004%	1%
(a) as a percentage of (c)	5.9%	5.7%	0.04%	4.7%

Notes: (1) Programmes include Old Age Security Pension, Guaranteed Income Supplement and Allowance.

(2) Programmes include Age Pension and living allowances.

(3) While waiting for Singaporean authority's reply on the expenditure on the public assistance for the elderly, the figure is derived from the following formula: $A \times B \times C$

Where

A = monthly rate of Public Assistance for a one-adult household, i.e. S\$260 (HK\$1,201)

B = number of months in 2003, i.e. 12

C = number of recipients under the Aged Destitutes category in the Public Assistance Scheme in 2003, i.e. 2 191

(4) Programmes in support of the elderly in poverty include Comprehensive Social Security Assistance for the elderly and Old Age Allowance.

Sources: Office of the Chief Actuary (2005), p.30, *Statistics Canada* (2005), Australian Bureau of Statistics (2005a), p.15, Australian Bureau of Statistics (2005b), p.2, Australian Bureau of Statistics (2005c), p.3, *Singapore Department of Statistics* (2005), *Ministry of Community Development, Youth and Sports* (2005), *Health, Welfare and Food Bureau* (2005), p.2, *Census and Statistics Department* (2004), p.212, and *Census and Statistics Department* (2005), p.222.

Table 7: Average Monthly Household Income from Work in Singapore**Table A4 Average Monthly Household Income from Work by Decile
Among All Resident Households**

Decile*	Average Household Income (\$)			Average Annual Change (%)		
	2000	2004	2005	2004	2005	2000 - 2005
Total	4,940	5,170	5,400	2.7	4.4	1.8
1 st – 10 th	90	-	-	-	-	-
11 th – 20 th	1,470	1,170	1,180	0.2	0.8	-4.3
21 st – 30 th	2,250	2,140	2,190	4.3	2.6	-0.5
31 st – 40 th	2,950	2,890	2,990	1.9	3.7	0.3
41 st – 50 th	3,660	3,670	3,850	2.1	4.8	1.0
51 st – 60 th	4,470	4,600	4,840	1.3	5.2	1.6
61 st – 70 th	5,390	5,510	5,890	1.3	6.9	1.8
71 st – 80 th	6,520	6,820	7,260	0.6	6.5	2.2
81 st – 90 th	8,270	8,960	9,300	2.6	3.8	2.4
91 st – 100 th	14,360	15,960	16,480	5.0	3.3	2.8

* Based on ranking of all resident households by per capita monthly household income from work.

Source: Singapore, Household Survey 2005. Table A4

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ⁱ CPF members who are below age 55 and want to put aside more cash for old age can transfer their CPF savings from the Ordinary Account to top up the Special Account to \$90,000, which is the prevailing Minimum Sum amount. The transfer is irreversible. With the transfer, CPF members will enjoy a higher interest rate paid on their CPF savings in the Special Account, which is currently 4%. In 2005, 20,798 CPF members transferred \$234.80 million to their Special Account for their retirement.

M Ramesh

Singapore's Multi-Pillar System of Social Security

*KDI-World Bank Conference on
"Multi-Pillar Model of Social Safety Net"
Held in Seoul, 6 December 2006*

Introduction

- I will describe the different pillars of social security in Singapore
- I will argue that Singapore has
 - an elaborate social security system for the middle and upper classes, and
 - inadequate arrangement for the poor.
- The weak support system for the poor is due to the government's aversion towards “welfarism”,
- But this has changed somewhat recently due to changed circumstances.

Multi-Pillar System

- The notion of multi-pillar system popularized by the World Bank's 1994 Report (*Averting the Old Age Crisis*)
 - It proposed three pillars.
- In 2005 a group of World Bank's senior staff members published "a policy note" (*Old-Age Income Support in the 21st Century*)
 - It proposes an expanded and more flexible social security system consisting of five complementary pillars.
- I will use the 2005 document as a template for discussing Singapore's social security system

The Five Pillars of Old Age Income Security

	<i>Objective</i>	<i>Financing</i>	<i>Program Features</i>
0	Poverty alleviation. Redistribution	Government'	<ul style="list-style-type: none"> • Mandatory • Publicly managed • Means tested • Minimum Benefits
1	Income replacement. Some redistribution	Contribution – PAYG or partially funded	<ul style="list-style-type: none"> • Mandatory • Publicly managed • Defined Benefits or Notional Defined Contributions • Earning-related benefit
2	Income smoothing, through savings	Tax-Preferred private savings or insurance. Fully funded.	<ul style="list-style-type: none"> • Mandatory • Privately managed • Defined Contributions • Benefits equal contribution plus returns on investment
3	Income smoothing, through enhanced savings	Tax-Preferred private saving. Fully funded.	<ul style="list-style-type: none"> • Voluntary • Privately managed • Fully Funded Defined Benefits or Defined Contribution • Benefits equal contribution plus returns on investment
4	Continuing protection where possible	Financial and other assets	<ul style="list-style-type: none"> • Voluntary • Privately and informally managed • Informal intra-family or inter-generational financial and non-financial help. Eg. Housing, healthcare

Zero and First Pillars

■ Zero Pillar

- Meant to provide a minimal level of protection to all those without sufficient income.
- Eligibility conditions are meant to be flexible so as to include all those who need support.
- Government funded, as contribution requirement would may exclude some potential beneficiaries.

■ First Pillar is a new proposal

- Targeted at the working poor, those who don't or can't save, and those who face unusually high longevity or market risks
- Benefits tied to income – but scope for some redistribution to those who need additional support.

Second, Third and Fourth Pillars

- The Second Pillar is a compulsory savings arrangement
- The Third Pillar is a voluntary savings arrangement
- The Fourth Pillar is a new proposal.
 - Recognizes that informal mechanisms a vital source of income protection.
 - Prominent examples include Family and Home ownership

The Pillars Old Age Income Security in Singapore

Pillar	<i>Program</i>
0	<ul style="list-style-type: none">• Public Assistance.• Ad hoc financial relief.
1st	<ul style="list-style-type: none">• Nil
2nd	<ul style="list-style-type: none">• Central Provident Fund (CPF)
3rd	<ul style="list-style-type: none">• Supplementary Retirement Scheme (SRS)
4th	<ul style="list-style-type: none">• High level of Family support.• High level of home ownership.

Zero Pillar in Singapore

- Consists of
 - Public Assistance
 - Welfare programs run by the Community Development Councils (CDCs) and the Ministry of Community Development, Youth and Sports (MCYS).
 - *Ad hoc* grants and fiscal reliefs
 - Tax incentives for encouraging private donations to charities by individuals and firms.
 - Encouragement for social services to be delivered by volunteers.
- The government calls these disparate measures 'many helping hands' approach to social welfare

Public Assistance (PA)

- PA is intended to benefit “... financially distressed Singaporeans who by reason of age, illness, disability or unfavourable family circumstances, are unable to work and have no means of subsistence as well as no one to depend upon.”
 - PA is only for those who have a good reason for not working **and** have no other source of income or family support.
- PA monthly benefit amount is S\$260 for an adult and S\$825 for a family of four.
 - Equivalent to 8% of average GNI for single adults and 6% of per capita GNI for a family of 4.
 - Compared to OECD average of 29% of GNI.

Public Assistance

- PA recipients form 0.07% of the population.
- Approximately 85% of all PA recipients are “aged destitutes”.
 - Yet, only 0.8% of the elderly receive it.
- There are many other small schemes to help families with education, housing, and utility bills.
 - They usually require one or more family members to be working.

Ad Hoc Benefits

- Government frequently gives out *ad hoc* benefits
 - Just before 2006 elections, the Government distributed S\$3.6 billion in Progress Packages and Workfare Bonuses
 - In recent years, billions of dollars have been given out through various assistance schemes, including New Singapore Shares, Economic Restructuring Shares and CPF Top-Ups.
- Significantly, these do not impose binding obligation on the government and are purely discretionary basis.

CPF

- Established in 1955.
- Participation is compulsory for all employed persons, except for foreign workers and casual and part-time workers
- Contribution rates have ranged 5 – 50% of wages.
 - Current combined contribution rate is 33% of wages.
 - Employee contributes 20% and the employer 13%.
- Members' accounts are divided into 3 sub-accounts, reflecting the different functions of CPF
 - Ordinary: holds 60-75% of funds
 - Special: holds 10-20%
 - Medisave: holds 15-20%

CPF

■ Ordinary Account

- Funds in this account may be withdrawn for a range of purposes, including housing and approved investment.
- Withdrawal for housing and investment form >75% of all CPF withdrawals.

■ Special Account

- Fund in this account is for retirement and may only be withdrawn at the age of 55 years.
- Members are required to leave a minimum sum in the CPF: US\$ 46,728.
 - The amount is released in instalments from the age of 62 years until it is exhausted.
- Withdrawal for retirement formed only 14% of all withdrawals in 2005.

CPF

- CPF is estimated to provide replacement income of 27-30% of the last pre-retirement income.
 - Compared to OECD average of 57% for 2nd Pillar programs
- Projected that 60-70% of the 50-55 years age group will not have sufficient funds in their CPF account to meet the minimum sum requirement.
- Low replacement is due to
 - Withdrawals for housing
 - Low returns -- 1.2% 1987 and 2004, the CPF provided average annual *real* returns of only%
 - Most importantly, absence of risk-pooling

Supplementary Retirement Scheme (SRS)

- Established in 2001.
- It allows employees (but not employers) to make voluntary contributions up to S\$11,475 (S\$26,775 for foreign workers) a year into their personal accounts, which can be invested in a variety of financial instruments excluding property
- Contributions and investment gains are exempt from taxes, but half of the withdrawal amount at retirement is subject to tax.

Family support

- Family is the main source of income for 80% of aged male and > 50% of aged females.
- Children provide > 75% of income for three-fifths of the elderly.
- Yet 79% of elderly had monthly income of below US\$ 584, (approximately 1/3rd of per capita GDP).
- The income support the aged receive from their family members is reinforced by common living arrangements.
- 93% of elderly live with at least one non-elderly person alone.
- The family support system is hard to maintain due to:
 - Declining family size
 - Growing share of aged
 - proportion of population 65+ years old will rise from 6 in 1990 to 15 in 2020

ng Housing

- Approved Housing Scheme allows members to use their CPF to buy public (1968) and private (1981) housing.
 - Buyers of public housing flats are eligible for loans up to 80% of the selling price for up to 30 years.
 - Interest rate is slightly above the rate offered by savings account – currently 2.5%.
- Most home owners in Singapore are able to service their mortgage loans entirely from their CPF contributions
- Home ownership in Singapore is 90%, up from 30% in 1970.
- People may be over-investing in housing
 - A typical worker at the age of 50 years and above in Singapore has 73-77% of her/his financial assets in housing and only about 20% in CPF
- Sluggish housing prices a concern – affects retirement income

Conclusion

- Singapore has
 - robust Second Pillar – CPF
 - strong Fourth Pillar -- widespread home ownership and family support
 - reasonably strong Third pillar – SRS
- Its main shortcoming is the absence of a meaningful Zero and First pillars capable of adequately protecting those not covered by other arrangements.
- Government is increasingly aware of the problem and is looking for alternatives.
- Concerns triggered by:
 - Economic fluctuations
 - Stagnant and declining wages for the less skilled and older workers
 - Growing income inequality.

Conclusion

- But efforts to establish a genuine Basic Pillar of income security hindered by the government's antipathy towards Western welfare state and its commitment to tying welfare benefits to work.