

Retirement adequacy is a worry as lifespans grow faster than people's years of work. State funds should be used to address anxieties about paying for one's golden years.

Wanted: A bold co-funding model for retirement

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FOR THE STRAITS TIMES

WE ARE one of the fastest-ageing countries in the world. Today, only around 10 per cent of Singaporeans are 65 years old or above, compared to 25 per cent in Japan. But around 40 years from now, we will intersect with Japan, with both countries having around 35 per cent of their populations 65 years or older. Shortly thereafter, we will overtake Japan.

In other words, in the next 40 years, our elderly people will triple in numbers - from one in 10 to one in three. That rate of ageing is unsurpassed in the world.

The Government's promise to Singaporeans at independence 50 years ago was that every hard-working citizen would be able to own a decent home through the HDB, and save enough money through the CPF to fund living expenses throughout retirement. These promises were a critical part of the social compact between citizen and State, and have been met. However, because of increasing life expectancy, the Central Provident Fund has been increasingly stressed to provide enough cash for retirement, and changes, some of them controversial, have been made to the original terms of the CPF in the past three decades.

Instead of the CPF retaining its place as the centrepiece and the cornerstone of the Singapore retirement system, current trends will eventually relegate it to being just one component in an increasingly disparate and complicated collection of retirement-related schemes.

The danger is that people will fail to fully understand, much less appreciate, the totality of the many separate schemes now in place and yet to come in the next 50 years, and may be perplexed by the State's role in ensuring retirement adequacy. Should that happen, a creeping cynicism may start to undermine the social contract which the CPF in its simple boldness represented.

It may be appropriate then, at this critical juncture of Singapore's history, during which the Government's Budget has implicitly embraced a model of co-responsibility for what was previously a self-funded model of retirement savings, to explicitly create an integrated, unified platform for all future schemes to supplement the CPF. I call this platform, for lack of a better word, CPF-Plus. In other words, Big CPF may be simpler and better than many small supplements.

Living way past retirement

WHY is retirement adequacy a growing problem? The inevitable and inexorable trend is simply that, like chasing someone who is running even faster, life expectancy is extending faster than the age of retirement.

Every generation is living longer and also retiring later, but the ratio of retirement years to working years does not remain the same. The ratio is increasing in favour of retirement years, so that what we save in our working lives has to be stretched out over a longer period. The net effect is less money to spend each year.

When the CPF was created 60 years ago and the retirement age was 55 years, life expectancy was around 65 years. Our parents worked during the first 85 per cent of their lives (excluding of course childhood and schooling

years) and their savings financed the remaining 15 per cent. I call this 85:15 ratio the retirement-funding ratio.

A high ratio indicates a high probability of retirement adequacy, simply because there are more working years to build up savings for fewer retirement years. Conversely, a lower ratio means poorer retirement adequacy because fewer working years are available to finance a longer retirement period.

Now fast forward to 2015. Life expectancy is now around 82 years and the retirement age has been extended to 62 years. The retirement-funding ratio has now declined to 76:24. This will worsen to 72:28 when our children's life expectancy rise to, say, 92 years and they retire at, say, age 66.

From a work-life balance perspective, this is social progress. Instead of retirement as a short precursor to death, we will enjoy longer, more active and meaningful retirement years. Eventually, almost one-third of our life expectancy can be spent in retirement, and that will be double what the pioneer generation enjoyed.

There is only one hitch: Who's going to pay for these golden years?

An enjoyable second career may be possible for professionals and other white-collar workers, but for the bulk of the working class, post-retirement employment is usually part-time or at a lower wage, and is usually no less stressful than the first career. Exacerbating this is the fact that the cost of retirement rises faster than income from salaries.

So if the retirement-funding ratio is not to worsen, people of my generation can stop working only at the age of 70 and my kids will have to retire at 78. This may be physically possible and some may well choose to do so, but they will have to sacrifice enjoying retirement or doing voluntary service.

In a collective social security system, the State pays for all the bonus years, and that is why in Western developed countries there is a concern that current generations have to fund future generations' hip operations and physiotherapy exercises. But because social security is collectivised, no single or individual pensioner is having anxiety attacks that his own State-funded pension will run out.

In a self-funded compulsory savings system - which to me includes the employer's contribution because companies consider this to be part of an employee's total compensation cost - the anxiety is much higher, because you have only what you personally saved up to tide you into retirement. And while this is good for the State and avoids inter-generational funding pressures, it puts the pressure squarely on the individual Singaporean.

The Government's approach to this problem is to ring-fence the truly exorbitant post-retirement expenses from a person's retirement needs so that the monthly CPF payouts can be quite small. And so, medical care for the most needy is heavily subsidised through Medifund; the elderly have their own special Pioneer Generation Package, and MediShield Life provides universal hospitalisation insurance.

Another potential drain on retirement adequacy is the cost of housing, which can be high for low-income retirees who do not own their own homes. In Singapore, this problem does not exist because of widespread home ownership, financed by CPF accounts. But that still leaves the



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non-medical, non-housing costs of retirement spending. The fundamental dilemma of a worsening retirement-funding ratio is simply that retirement adequacy will inevitably worsen over time.

Furthermore, people's expectations of what basket of goods or services should constitute a minimally acceptable retirement lifestyle will only increase over time as we become more developed and affluent.

One argument is that if people were willing to monetise their homes by selling and downgrading, or do reverse mortgages with the HDB, a lot of cash will be released for them to spend during retirement. The problem is that this option has not been popular and most people seem to consider home ownership an essential part of their retirement security.

The anxiety of Singaporeans as they approach what should be the happiest period of their lives - an active, enjoyable retirement as the reward for all their hardworking years - will not lessen but instead will increase, unless there is an explicit assurance that a fundamental change will be made to the current CPF model. And mind you, at 2,402.4 hours a year, we already work the longest hours in the world.

Fifty years ago, the social contract our pioneer leaders made with the people of Singapore through the CPF-HDB dual promise was instantly audacious, compelling, and risky in its promise. People rallied to its simplicity and the People's Action Party's (PAP) ability to deliver on this promise underpinned, to a great extent, its continuing success at the polls.

Today, the original CPF vision has been tweaked almost beyond recognition and is unable to provide, by itself, retirement adequacy for Singaporeans. The Government has responded with laudable and socially beneficial schemes outside the CPF system, but the social compact which the CPF represented in its simplicity is at risk of being frayed because the uncertainties about retirement adequacy are being addressed by separately conceptualised and executed schemes.

Addressing anxieties

TO ERASE anxieties and restore the CPF as the cornerstone of our

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retirement system, is a simple, bold and audacious commitment now needed for the next 50 years?

Should the State simply guarantee all Singaporeans that it will top up the accounts of those CPF members, plus citizens without CPF savings, to whatever levels are periodically deemed necessary by a competent authority for a minimally reasonable level of retirement livelihood? I note here that the commitment should not be limited to just a survival level of retirement livelihood, but to a reasonable level as determined by periodic and impartial assessment, because what constitutes reasonableness will change as we mature into an increasingly developed and affluent society.

This unequivocal commitment, with all schemes to be encompassed within the single CPF platform, is what I call CPF-Plus. If, for example, a competent authority such as an advisory panel were to determine that the minimum monthly sum required for a basic but dignified retirement lifestyle for any particular period of years is, say, \$1,000 a month,

then the difference between that and what the Minimum Sum or Basic Retirement Sum can provide, will come in the form of direct cash injections to that CPF account. The Silver Support Scheme is similar in concept, but is an independent scheme and until more financing and administrative details are revealed, it is hard to comment further.

CPF-Plus can be funded from the net investment income of our national reserves. This is the surplus generated by investing our reserves, after deducting for liabilities such as payment to CPF account holders. The Constitution was amended in 2008 to allow up to half of the net investment return or NIR to be utilised by the Government for current spending.

To be cautious and to not have an open-ended commitment which it might regret later, the commitment could be capped at a certain percentage of NIR, such as 5 per cent or 10 per cent - whatever is both prudent as well as likely to be sufficient.

If even committing a maximum percentage of NIR to CPF-Plus is considered too radical, another option is to set up an endowment fund, which is only a once-off commitment, and leaves increases to the fund to future governments to decide. In this case, only the investment returns from the endowment fund would be utilised for CPF-Plus. This is how Medifund is structured, and it has grown from \$200 million in 1993 to \$3 billion now.

To put some figures in perspective, the current Silver Support Scheme is going to cost \$350 million a year. Say we establish an endowment fund and it manages to generate 4 per cent profit. In order to get \$350 million a year, there needs to be around \$9 billion in the CPF-Plus endowment fund to start with.

Several basic principles can already be envisaged for CPF-Plus. ■ First, it should be paid into the CPF accounts of only the Singaporeans whose retirement savings will not be adequate to fund their retirement needs, as determined periodically by a competent authority convened every, say, four to five years. In other words, there should be a means test for reasons of social equity.

This, of course, also assumes that CPF will revert to its original

role as a savings fund, so that people cannot intentionally draw down or overspend their CPF savings for housing or investments just in order to be topped up by CPF-Plus.

■ Second, it should take into account the fact that non-working Singaporeans do not even have CPF accounts but still need retirement savings. This can be a good opportunity to reform the CPF-only-for-workers model entirely, so that husbands can pay part of their own CPF into their wives' accounts if they are homemakers or caregivers. Or these homemakers and caregivers can be given an allowance from the State which goes into their CPF.

■ Third, it can be tweaked to reward those who are willing to save more, or willing to withdraw later, than the minimum mandated by CPF regulations, or even to reward entire special groups such as national servicemen.

Explicitly committing to a CPF-Plus co-responsibility model for retirement payment removes the anxiety from Singaporeans that occasional measures to help them may still not be enough to bridge future retirement-funding gaps.

Furthermore, it also provides flexibility for a government because the cap on the NIR percentage to be used for CPF-Plus or the increase to the endowment fund, depending on which model is used, can be determined from time to time and, therefore, can be kept within the limits of sustainable and realistic long-term investment returns from the reserves. This will minimise the likelihood of unfunded pension liabilities which haunt the pension systems of the developed world.

In line with values

THERE may be two objections to CPF-Plus. First, to guarantee a supplemental source of funding for a person's CPF account may erode the work ethic and de-incentivise savings. Second, drawing upon the reserves, even if only the NIR, is sliding even further down the slippery slope of raiding the reserves, which started with the constitutional amendment to allow half the NIR to be used for current expenditure.

There are sound counter-arguments to these objections. To top up a person's CPF accounts just prior to retirement, whenever that is determined to be, does not equate to giving money to a person during his working years. Rewarding sections of the population through CPF-Plus does not erode the work ethic nor create an entitlement mentality of handouts because of its deferred impact. It can even be argued that this can help to inculcate a culture of deferred gratification.

The fact is that CPF-Plus is in line with values of governance in Singapore, which, starting with the ideological origins of the PAP, are more aligned towards social democracy than laissez-faire or market capitalism. And Singaporeans are better off for it. Medifund, Workfare Income Supplement Scheme, or the Pioneer Generation Package have not eroded the work ethic nor created an entitlement mentality of handouts. They have rewarded and brought comfort to sections of the population.

As for drawing upon the NIR of the reserves to fund CPF-Plus, we need to recognise that not only is the NIR already being tapped for various purposes, but also that this is not transferring the burden of funding CPF-Plus to future generations, which would be the case with most tax-based collective social safety nets.

Indeed, this may prompt a separate discussion on the reserves itself. The fact that the Government amended the Constitution to allow half the NIR to be allocated for current expenditure implies a recognition that the growth of our reserves is approaching a point of sufficiency for whatever unforeseen contingencies may arise. It can be argued that after this point is reached - whatever size of reserves it might imply - the NIR should belong to current and not future generations, and failure to return at least a large chunk of such returns to finance a current generation's welfare is, in fact, inter-generationally inequitable.

The case can even be made that as more pioneer Singaporeans who contributed to our reserves are dying out and as we multiply less, our reserves per capita increases at an exponential rate, and thus, if anything, the Government should consider being more generous with its spending.

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