Lee Kuan Yew School of Public Policy

NUS National University of Singapore

Housing: How should Singapore's Housing Development Board (HDB) Help Older People Monetise their Housing Assets and Age in Place?

Introduction

In 2006, the Committee on Ageing Issues (CAI) highlighted that from then until 2030, Singapore would experience an unprecedented and transformative demographic shift.[1] The number of residents aged 65 years or older would increase threefold to 900,000 by 2030. At that point, elderly citizens and permanent residents are expected to form 19 per cent of the resident population, up from 7 per cent in 2000. With longer life expectancy, ageing of the baby-boom generation and low fertility rates, Singapore has one of the fastest ageing populations in the world. Even if fertility rates and net immigration were to increase in the future, there would nonetheless be a much larger absolute number of elderly residents in Singapore.

Among the various challenges posed by an ageing population, the Report emphasised the issue of retirement adequacy. This was not a new observation: as early as the 1980s and 1990s, the Singapore Government had emphasised the need to ensure that Central Provident Fund (CPF) balances and personal savings were sufficient to meet the rising cost of living as the population aged. There was some good news: the elderly were – on average – getting richer, and the future elderly (those aged 55 and above today) are likely to be even more so.[2] More elderly people were also planning for their retirement needs: according to the Housing and Development Board (HDB) Sample Household Survey (SHS) 2008, almost every elderly person (99.6 per cent) had at least one financial source for retirement compared to 80 per cent in 2003.

However, there is still a substantial group of lower-income elderly (particularly in the bottom 10th to 20th percentiles) who will not meet their CPF Minimum Sum, and thus lack the required income or savings to cover their retirement expenses, especially in the event of an unexpected and disruptive event such as divorce or a major illness. Furthermore, with low birth rates, rising divorce rates and falling marriage rates and the doubling of "wholly senior households" from 1995 to 2005, a significant proportion of the future aged may not receive financial support from their family networks.

[1] Government of Singapore (Feb 2006), "Committee on Ageing Issues: Report on the Ageing Population".
[2] In 1998, only 24 per cent of active CPF members were able to meet the CPF Minimum Sum (MS) cash component at that time of $16,000 at 55 years old. By 2011, despite the rise in MS to $131,000 (and cash component of $65,500), 45 per cent of CPF members met their MS, compared to about 36 per cent of members in 2007. See commentary by Minister for Manpower Tan Chuan-Jin at http://momsingapore.blogspot.sg/2012/05/being-retirement-ready.html, accessed 12 Jul 2013.

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Background

One important reason for the inadequacy of CPF balances to cover retirement expenses was the withdrawals to pay for housing. A study by Chia and Tsui (2012)[3], commissioned by the Ministry of Manpower, explained that "larger CPF withdrawals to finance bigger housing loans mean that lesser savings will be available for retirement." The impact on post-retirement income was significant. For instance, for a new entrant into the workforce in the 30th income percentile, buying a 4-room flat rather than a 3-room flat would decrease his net Income Replacement Ratio from 88 per cent to 56 per cent. Most may not realise this or may lack the computational ability to realise the impact of housing purchases on retirement adequacy, prompting the Inter-Ministerial Committee (IMC) on the Ageing Population in 1999 to observe "a propensity for Singaporeans to over-consume or over-invest in housing" at the expense of provision for old age, leading to "asset rich, cash poor" retiree households.[4]

Home ownership has been a central pillar of nation-building since Singapore's independence in 1965. Then-Prime Minister Lee Kuan Yew sought to build a stakeholder population that would vote responsibly, identify with the country's interests, and be willing to defend it. He later wrote:

> *After independence in 1965, I was troubled by Singapore's completely urban electorate. I had seen how voters in capital cities always tended to vote against the government of the day and was determined that our householders should become home owners, otherwise we would not have political stability. My other important motive was to give all parents whose sons would have to do national service a stake in the Singapore their sons had to defend.*[5]

In later decades, when over 80-90 per cent of Singaporeans already owned their homes, public housing policies focused more on asset enhancement. This was intended to distribute the fruits of economic growth, improve HDB living conditions, and increase household wealth. From the mid-1980s, the prices of new HDB flats were explicitly linked to the market prices of resale flats, even though they were still sold at a discount. From 1991, then-Prime Minister Goh Chok Tong introduced policies such as the Main Upgrading Programme (MUP) for public housing. These policies helped to create the conditions for a more-than-tenfold increase in the prices of HDB flats over the past 30 years.

Continuously rising house prices have had two main consequences. First, it increased the amounts that families have to pay to get on the property ladder, prompting them to withdraw more of their CPF savings for housing. Second, it entrenched the perception of public housing as a form of investment rather than consumption. The potentially lucrative capital gains and risk-adjusted investment yield from residential properties compared to bank deposits and CPF interest rates stoked the rising aspirations of Singapore families to upgrade to larger properties, despite the fall in the average household size from 4.4 in 1987 to 3.4 in

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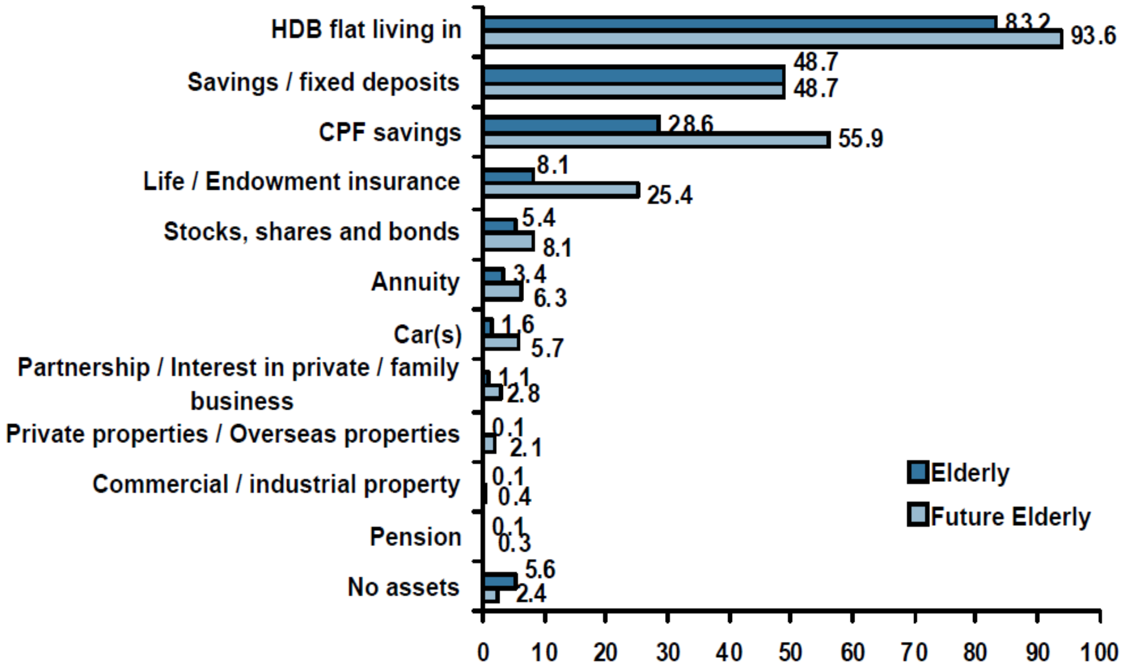
[3] Chia, Ngee Choon and Albert Tsui (2012), "Adequacy of Singapore's Central Provident Fund Payouts: Income Replacement Rates of Entrant Workers". http://www.mom.gov.sg/Documents/retirement-income-adequacy/Occasional-Paper-CPF-IRR.pdf accessed 2 Jul 2013.
[4] Government of Singapore (1999), "Report on the Ageing Population", by the Inter-Ministerial Committee on the Ageing Population.
[5] Lee, Kuan Yew (2000), *From Third World to First: The Singapore Story, 1965-2000* (New York: HarperCollins Publishers), pp. 96-7.

2008. Households typically face a choice between leaving CPF funds in the Ordinary Account (OA) to save for retirement and withdrawing these funds to purchase property. When housing came to be seen as a one-way bet given rising house prices in the long-term, it may in fact be rational for households to use as much of their CPF monies for housing. While the use of CPF for housing enabled many older Singaporeans to own their homes instead of renting, it has also reduced their liquid savings for retirement.[6]

Why Housing Monetisation?

Housing monetisation refers to the conversion of household wealth from a more illiquid source (housing) to a more liquid one (cash or its equivalent), often to finance current expenditure. This will become increasingly important as households age, since the most common – and often the largest – store of wealth for most elderly families is their primary residence (see Exhibit 1). This is especially true for HDB households, which on average have lower financial assets and savings than private property owners, and are ageing faster than the general resident population.

Exhibit 1: Financial Assets of Elderly and Future Elderly HDB Residents[7]



[6] In March 2012, Deputy Prime Minister and Minister for Finance and for Manpower Tharman Shanmugaratnam explained that older Singaporeans had invested a larger part of their CPF savings in their homes, compared to what we will see with future generations. For most of their working lives, about 80 per cent of their total CPF contributions could be withdrawn for housing. DPM Tharman noted that this had been reduced to less than 65 per cent. See Shanmugaratnam, Tharman (2012), "Committee of Supply (Speech 1)", Parliament of Singapore, 5 Mar 2012.
http://www.mom.gov.sg/newsroom/pages/speechesdetail.aspx?listid=372, accessed 8 Jul 2013.

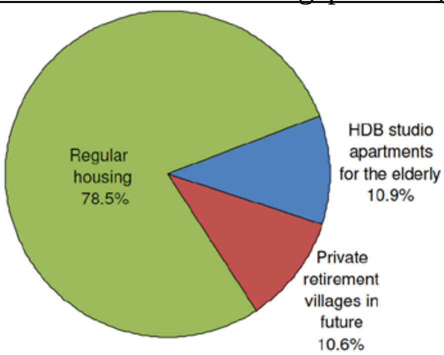
[7] Housing and Development Board (2010b), "Public Housing in Singapore: Well-Being of Communities, Families and the Elderly", p. 154.

While households of all ages have the option of monetising housing by selling it in the open market, another important consideration for the elderly is the ability to "age in place". The Committee on Ageing Issues defined the term as:

> *…growing old in the home, community and environment that one is familiar with, with minimal change or disruption to one's lives and activities. This is to promote social integration where the needs of seniors can be met within the community, rather than to segregate them as a distinct and separate group of the population.*[8]

Without partial monetisation options, more elderly residents would have to sell their homes and buy smaller properties, perhaps in less central or unfamiliar areas where prices are lower, to free up funds for retirement expenditure. However, there are significant social and psychological costs to the elderly when they relocate away from the environments and communities that they know well. Survey data across countries indicated that elderly households preferred to continue living in their existing houses as they aged, or – failing which – in suitable alternative arrangement in their *current* neighbourhoods. Most elderly Singaporeans also expressed a definite preference to continue staying in regular housing, instead of specialised elderly housing or communities (see Exhibit 2), and to stay with or near loved ones as they aged.[9]

Exhibit 2: Housing Preferences of Older Singaporeans (i.e. 55 and above)[10]



Against this backdrop, we can identify two key policy questions. First, how should policy attempt to influence household balance sheet and asset allocation decisions in order to reduce the problem of an "asset rich, cash poor" society? Second, how can policymakers help retirees to *age in place* while they allocate their assets away from housing and towards income and liquidity?

Options for Housing Monetisation

Housing monetisation schemes should allow retiree households to unlock the asset value of their properties, supplementing other sources of retirement income such as CPF LIFE payouts and enhancing retirement adequacy. Four main types of monetisation tools have been used in

[8] Government of Singapore (Feb 2006), "Committee on Ageing Issues: Report on the Ageing Population", p. 16.
[9] *Ibid.* Table 5.5 p. 106.
[10] Urban Redevelopment Authority, "URA Lifestyle Survey 2009," p. 20.

Singapore: (i) sub-letting; (ii) downsizing to a cheaper house; (iii) reverse mortgage; and (iv) the Lease Buyback Scheme. We will study each in turn.

(i) *Sub-letting*

Elderly households have the option of sub-letting or renting out part of their residential properties, or the entire property. This is a viable option for retirees who have at least one spare room available for tenants. A 2012 study by MND[11] found that of the 254,000 HDB flats owned by Singaporeans aged 55 and above, 93 per cent were eligible to sublet their entire flat. However, only 10 per cent (13,500) actually engaged in any sub-letting activity to earn additional income. Those living in smaller apartment types were more likely to sub-let than those in larger apartments. Sub-letting yielded a median monthly rent of about $600 for a single room, and from $1,480 to $2,450 for an entire flat, depending on the flat type, location and proximity to amenities. This is a significant income given that in 2008, about half of all employed elderly HDB residents earned below $1,000 per month.

Of the households who did not sub-let, the majority indicated privacy and security concerns (74 per cent), with others citing the lack of a spare room (39 per cent) and no need for rental income (22 per cent). While there is a safety risk for the elderly when sub-letting their apartments, this must be weighed against the benefits of living with a younger tenant in case of medical or other emergencies. However, the same study found that 71 per cent of non-sub-letting households were unwilling to consider tenants even if they had spare rooms and found an ideal tenant. This norm may limit the potential of sub-letting as a monetisation option.

(ii) *Downsizing*

Downsizing refers to selling one's existing home on the open market and purchasing a cheaper, generally smaller house for residential use. The net proceeds from the sale can be used to purchase an annuity to generate an income stream, or to pay for consumption needs. It is an option for elderly households who currently reside in a property that is larger than they need, for instance in cases where their adult children have moved out.

There is some potential for downsizing as indicated by the housing preferences of the elderly in Singapore, with many indicating that they would be content with a smaller flat. Nonetheless, elderly households are predominantly content with the size of flat in which they are currently residing (see Exhibit 3).

In 2012, 1,938 households with at least one lessee 55 years and above sold their flats. They mostly bought studio apartments or smaller flats, with a minority moving in with relatives or renting. MND estimated that a household moving from a median 3-room resale flat to a median-priced studio apartment would receive about $200,000 in net proceeds.[12] Downsizing hence remains a viable option for those who are financially savvy, and who act at the right point in the property market cycle.

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[11] Ministry of National Development (2013), "Subletting by Elderly HDB Flat Owners", http://www.mnd.gov.sg/homesweethome/pub_data/about_topic/pdf/subletting_by_elderly_hdb_flat_owners.pdf accessed 10 Jul 2013.

[12] Ministry of National Development (2013), "Subletting by Elderly HDB Flat Owners".

Exhibit 3: Elderly Households by Current Housing Type and Housing Type Content With[13]

Housing Type / Content with	1-Room	2-Room	3-Room	4-Room	5-Room	Executive
Studio Apt	0.2	0.3	1.7	1.0	0.6	0
1-Room	89.3	14.7	2.7	1.1	2.5	0
2 -Room	5.4	70.6	2.9 } 5.6	2.9 } 17.1	0 } 15.7	0
3-Room	3.5	7.8	77.3	13.1	11.7	0
4-Room	0.9	2.5	9.9	71.3	1.5	11.2
5-Room	0.4	2.1	3.1	0.9	71.4	9.0
Exec Apt/HUDC	0	0	0.1	0.8	0	79.8

The Silver Housing Bonus (SHB) was introduced in 2012 to encourage elderly HDB households to downsize if their circumstances permit. It provides a cash bonus of up to $20,000 to eligible households that sell their existing apartments and purchase a 3-room or smaller apartment. To qualify, these households had to first use a portion of their sale proceeds to top up their CPF Retirement Accounts (RA) up to their prevailing Minimum Sum. (Details of the SHB are at Annex A.) The SHB was enhanced in late 2012 (the changes took effect from early 2013) to reduce the CPF top-up requirement to $60,000 in most cases, and to pay successful applicants the full $20,000 bonus in cash, rather than $15,000 in cash and $5,000 in CPF. The CPF RA would then be tapped to purchase a CPF LIFE annuity plan, which provides a monthly income for life.

While the improvements have enhanced its appeal, the CPF top-up requirements remain onerous and may explain the low application rate for the SHB even after the enhancements.[14] SHB applicants would receive substantially smaller cash proceeds (but higher CPF RA balances), even after the SHB cash payout is included, compared to those who simply sell their flats on the open market and keep the cash proceeds in full. In the worst case scenario, should the eventual sale proceeds be less than $60,000, the applicant must use the entire sum to top up his CPF RA. Thus, he receives no upfront cash proceeds from the sale of his flat, and only a reduced SHB of $1 for every $3 used to top up his CPF. Should the combined transaction and ancillary costs (e.g. legal fees, stamp duties, agent commission, and costs of renovating the new apartment) exceed the allowed deductible of $15,000, the applicant may even be out of pocket. Instead, the largest SHB benefits accrue to applicants staying in larger (4- or 5-room) flats who downsize to studio apartments, as they would realise substantial sale

[13] Fong, Chun Wah, *Public Housing in Singapore: Social Aspects and the Elderly*, (Singapore: Housing and Development Board, 2005), Table 5.19.
[14] According to MND, only 23 applications were received (of which 13 had been approved) by early June 2013.

proceeds, qualify for the full $20,000 SHB, and receive a sizable cash sum after topping up their CPF.

Regardless of the cash proceeds from downsizing, this option may not allow elderly persons to age in place, since it requires the sale of their existing home. Downsizers will be able to purchase suitable replacement housing in the vicinity more easily if different sizes of flats are built in the same neighbourhood (or even within the same apartment block), and as more senior-friendly studio apartments are built within mature housing estates.

(iii) *Reverse Mortgages*

Reverse Mortgages (RMs) allow homeowners to borrow cash from a bank or insurer using the equity value in their property as collateral. This loan can be a lump sum, a future stream of payments, or a combination of the two. Interest is charged on the outstanding loan amount. The bank recovers the loan plus interest when the owner sells the property or passes away.

RMs have been available to private property owners in Singapore through lenders such as OCBC and NTUC Income at least since 1997. Owners of HDB flats were not eligible, since HDB was then the sole provider of mortgage loans for HDB flats. In July 2002, commercial banks were allowed to replace HDB in the provision of market rate loans for the purchase of HDB flats from January 2003. The banks were accordingly given the first priority of claims over a mortgaged property, ahead of CPF. Under these circumstances, it became possible to provide RMs for HDB flats, and the 2006 CAI report recommended that HDB work with financial institutions to offer RMs for elderly HDB lessees on commercial terms.

However, RMs abruptly fell out of favour with banks, homeowners and policymakers following the property market downturn in 2007-8. As housing values fell sharply, lending banks panicked as the outstanding loan amounts owed by some RM holders came close to, or exceeded, the market value of their properties. Lenders began to withdraw or reduce monthly payouts, and in extreme cases repossessed the pledged properties for resale. This prompted a couple to file a lawsuit against NTUC Income in 2009.[15] Most banks stopped offering RMs in 2009, and they are not available in Singapore today. In the USA, Home Equity Conversion Mortgages – the equivalent of RMs – are underwritten by the Federal Housing Administration, and any negative equity or shortfall is paid to the lender by an insurance scheme managed by the FHA, rather than the homeowners, thus insulating homeowners from housing market volatility that is beyond their control.

iv) *Lease Buyback Scheme*

Like the RM, the Lease Buyback Scheme (LBS) allows homeowners to partially monetise their properties while continuing to reside in them. There are several important differences. First, the LBS is only available to lower-income HDB flat owners who are aged 63 or older, living in 3-room and smaller flats, who may not benefit as much from the SHB and sub-letting. Second, HDB will purchase a portion of the flat's remaining lease in exchange for cash, and the cash is used to purchase a CPF LIFE annuity. The homeowner is therefore not

[15] *The Business Times* (2009), "Couple Sue NTUC Income over reverse mortgage deal gone sour", 28 Jul 09. http://www.asiaone.com/Business/My%2BMoney/Property/Story/A1Story20090728-157639.html accessed 29 Jun 2013.

dependent on the future collateral value of his HDB flat for his lifetime cash-flow. The elderly homeowner is left with a 30-year lease, which would generally be sufficient for his lifetime accommodation needs.

A key benefit of the LBS is the (limited) bequest value available to homeowners. Unlike RMs where the property must be sold to repay the loan and interest, an elderly resident's heirs can inherit the residual HDB lease should he pass away before the 30-year period. But a significant drawback of the LBS is that the value of the participants' flats are determined and fixed at the point of enrolment in the LBS, and they are only allowed to return their flats to HDB in future, in exchange for a refund of their residual lease pro-rated on a straight-line basis. For instance, assume that a homeowner's flat with 70 years remaining lease is valued by HDB at $700,000 in 2013, and HDB purchases the tail-end lease of 40 years for $400,000, leaving him with a 30-year lease that is implicitly valued at $300,000. If the homeowner subsequently wishes to sell his apartment in 10 years' time, he must sell it back to HDB, and he will receive just $200,000 (i.e. two thirds of the original lease value), even if similar flats are selling for much more in the resale market at that time.

The LBS is unique to Singapore, because it relies on a large pool of leasehold public housing provided by a monopoly supplier willing to repurchase the leases. It was introduced in 2009, and enhancements were announced in 2012.[16] (More details are at Annex B.) These enhancements have led to an increase in applications from an average of 18 to 88 per month. As of February 2013, 471 households had participated in the LBS, and gained average proceeds of $114,000.[17]

Assessment of the LBS and Options for Improvement

The 2008 SHS indicates that only 20 per cent of elderly residents – excluding those living in Studio Apartments and rental flats – would consider taking up either the LBS or RMs.[18] Many of the elderly households who would not consider either scheme explained that they had their own savings. It is worth noting that this reflects sound reasoning. The LBS is targeted at low-income elderly with poor retirement preparedness, and is not designed for households with adequate income for retirement. Other respondents preferred to leave their flats to their children, felt that the schemes were not attractive, or would rely on their families for support (see Exhibit 4).

The case of 67-year old retiree Mr Kwek Joo Heng is instructive in illustrating some of the challenges and successes of the enhanced LBS. Mr Kwek's 1985 Ubi three-room flat was valued at about $300,000, and HDB bought his residual lease for net proceeds of about $130,000 after deducting $170,000 for his 30-year tail-end lease. He also qualified for the $20,000 LBS bonus.[19] Mr Kwek told reporters that "some people have told me that I could get more money if I sold my flat on the open market, but that is too troublesome for me. This scheme is good; I get to stay in my flat where I am familiar with the surroundings." He

[16] Ministry of National Development, Housing Development Board and Central Provident Fund Board (2012), "Silver Housing Bonus and Enhanced Lease Buyback Scheme Made More Attractive for Elderly", Joint Press Release, 27 Dec 2012. http://www.mnd.gov.sg/PDF/Silver_Housing_Bonus.pdf, accessed 9 July 2013.
[17] MND (2013), "Subletting by Elderly HDB Flat Owners".
[18] HDB (2010b) p.157. When the elderly households were surveyed, RMs were still being offered in Singapore.
[19] *The Straits Times*, 14 April 2013, "Lease Buyback Scheme Leaves Retiree $130K Richer", by Magdalen Ng.

further explained that if he had children, he would not have sold his flat back to the Government. As he remarked, "of course, I would want to leave it to them."

Exhibit 4: Reasons Given by Elderly and Future Elderly for Not Considering LBS or RMs[20]

Reasons	Per Cent of Households	
	Elderly	Future Elderly
Have own savings / Financially sound	30.4	34.4
Prefer to leave flat to children/other family members/relatives	16.8	14.4
Not attractive / Prefer to sell or sublet room(s)	10.9	11.7
Children/grandchildren can support	10.8	5.0
Not interested / Too troublesome	7.5	5.6
Want to fully own a home / Flat is the only asset	7.1	5.0
Prefer to downgrade to smaller flat / Rent / Live with children	4.4	9.9
Never thought about it	3.4	4.2
Do not fully understand the scheme / Need more information / Wait and see	2.5	4.6
Not sure about the future / May outlive the 30 years-lease	1.0	2.5
Others *(e.g. Do not like the idea, want to keep it as an investment, etc.)*	5.2	2.7
Total %	100.0	100.0
Total N*	59,931	81,518

While Mr Kwek might indeed have been financially better off by selling his flat in the open market and downgrading to a smaller apartment, the ability to age in place – along with the convenience of the LBS – was important enough to him to forego the additional capital gains from an open market sale. Second, the bequest motive remains strong for many elderly residents, who believe in the importance of passing down property as an inheritance despite their own lack of retirement adequacy. The elderly also tend to prefer full home ownership, and may perceive the LBS as complex and difficult to understand.

More broadly, the challenges faced by older Singaporeans with too much of their wealth locked up in housing raise deeper questions about the role of public policy in housing.

(i) *Reframe the norms of home ownership?*

Home ownership has become a deeply ingrained norm in Singapore.[21] It is evident that most elderly people today do *not* see their homes as a financial asset that is interchangeable with

[20] HDB (2010b) based on data from SHS(2008).
[21] Urban Redevelopment Authority (2009), "Lifestyle Survey" p. 16: Singaporeans express a strong preference for owning their accommodation, with 95 per cent preferring to own and only 4.9 per cent preferring to rent.

cash, and which should be systematically drawn down during retirement. Likewise, Venti and Wise argue using US data that although equity-rich and income-poor families tend to downsize when moving to another house, most households do not willingly monetise their homes except after a "precipitating shock" such as divorce or bereavement.[22] They may perceive their homes purely as an environment to live in as they age or as a bequest. Alternatively, they may see their housing equity as a store of wealth for emergencies like serious illnesses. From the latter perspective, there is some degree of conflict between housing as a savings buffer against crises, and housing as a means to finance regular consumption in old age.

In Singapore, public housing has been an effective mechanism of wealth creation and transfer, giving rise to a broad home-owning middle class in the 1970s and 1980s. However, the continuing emphasis on housing may come at the cost of other types of social spending and social safety nets, and has led to the unwillingness of households to rebalance away from illiquid assets towards income as they age. At the individual level, an obsession with home ownership is neither a rational nor a beneficial norm throughout a person's life. Should government policy now facilitate and promote housing monetisation as a normal process in the later years of life?

(ii) *How should we accommodate and support older people's preferences?*

Behavioural economists see the hesitation of many elderly households to downsize or otherwise monetise their properties as a form of endowment effect. Most elderly homeowners are accustomed to staying in their homes (or at least a certain type and size of home), and anchor their expectations of adequate housing based on their current homes.

While it is difficult to change such perceptions, monetisation schemes can also take advantage of other behavioural tendencies and preferences to increase participation rates. As home ownership norms change, housing monetisation schemes could eventually be implemented on an "opt-out" rather than an "opt-in" basis for the low-income elderly, as long as households are given genuine opportunities to opt out, and are properly advised on the consequences of doing so. Households could also be given the option of committing at an earlier age (e.g. 50) to take part in the LBS when they reach 55 years old, perhaps with an additional cash incentive to do so. This takes advantage of hyperbolic discounting, since making a complicated decision that will take effect only in the future is less intimidating than making a decision that will take effect immediately. However, to be fair to such households, they should be given the option to change their minds under certain circumstances, such as a genuine need to sell their flat on the resale market to fund medical expenses.

(iii) *How can HDB provide greater certainty and peace of mind?*

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[22] See for instance Venti, Steven F., and David A. Wise (1989), "Aging, Moving, and Housing Wealth", in D. Wise (ed.) *The Economics of Aging*, University of Chicago Press; Venti, Steven F., and David A. Wise (1990), "But They Don't Want To Reduce Housing Equity", in D. Wise (ed.) *Issues in the Economics of Aging*, University of Chicago Press; Venti, Steven F. and David A. Wise (1991), "Aging and the Income Value of Housing Wealth." *Journal of Public Economics*. Vol. 44. pp. 371-397; and Venti, Steven F. and David A. Wise (2001), "Aging and Housing Equity." in Bodie, Hammond, and Mitchell (ed.) *Innovations for Financing Retirement*. University of Pennsylvania Press and the Pension Research Council.

Currently, there is no guarantee that LBS participants will be able to continue staying in their flats if they live beyond the 30-year remaining lease. Instead, HDB has indicated that appropriate housing solutions will be identified for them, and that nobody will go homeless as a result of outliving their leases. Given current average life expectancies, there is only a low probability of a 65-year-old outliving the 30-year residual lease. However, people – in particular the future elderly who are expected to live longer – may over-estimate and over-weight this risk, and be hesitant to apply for LBS. While it is probably impossible for HDB to give the elderly an absolute guarantee of lifelong residency in their current flats, can more be done to reassure them that all efforts will be made not to displace them from their familiar living environments?

(iv) *How can the financial attractiveness of monetisation schemes be enhanced?*

The combination of the LBS and CPF LIFE annuity is, on balance, an attractive option for CPF members compared to similar monetisation offerings in other advanced economies. For instance, Taiwan's equivalent scheme offers higher maximum monthly payouts and allows the elderly to stay in their homes until death, but it also requires them to pledge their entire property to the government, which then loses all resale or bequest value.[23] Unlike many other commercial and public annuity schemes in the USA, the residual CPF LIFE premium is refunded to the CPF member's estate following his demise.

Could more be done? Since the LBS does not require a full property pledge, it may make sense to allow participants to continue to enjoy some of the future asset appreciation and market value of their apartments. This could give the elderly more reassurance when applying for LBS during a low point in the property market. First, HDB could allow commercial market valuation rather than internal HDB valuation of apartments for those applying for LBS. There is some evidence that HDB valuations tend to be lower than commercial valuations, as seen from the high transacted prices that flats command above HDB valuations. For instance, median Cash over Valuation (CoV) in a buoyant property market (e.g. 4Q2012) ranged from about $24,000 – 35,000 for 3-room flats and about $35,000 to $65,000 for 4-room flats.[24] Second, when LBS participants wish to sell their flats back to HDB in future, HDB could conduct a new valuation of the property, and split the assessed increase in property value with the homeowner, rather than fix the flat's value at the time of LBS application.

The 2012 enhancements to the LBS and SHB offered the elderly higher upfront cash payments by increasing the LBS bonus from $10,000 to $20,000, and disbursing the housing bonuses in full cash rather than partially in CPF. This is likely to appeal to elderly households with immediate cash needs and high discount rates. Some have argued for the schemes to go further, and dispense the full monetisation proceeds in cash rather than require the purchase of a CPF LIFE annuity. However, there are risks to this approach, since monetisation schemes target the low-income elderly who may lack the investment expertise or the financial discipline to manage a sudden large windfall. Minister for National

[23] A 70-year-old man whose home is valued at NT$10 million (US$336,000), for example, will receive up to NT$34,800 (US$1,200) a month until his death. See *The Straits Times*, "Home for annuity' scheme for single, aged Taiwanese" (18 Mar 13), by Lee Seok Hwai.
http://www.straitstimes.com/the-big-story/asia-report/taiwan/story/home-annuity-scheme-single-aged-taiwanese-20130318 accessed 24 Jun 13.

[24] http://data.gov.sg/Agency_Data/HDB/2315040000000001620H.xls accessed 9 Jul 2013.

Development Khaw Boon Wan thus argued that the government needs "to strike a balance between improving retirement adequacy by requiring a meaningful top-up to the CPF, and keeping the schemes attractive by allowing adequate cash proceeds."[25]

More broadly, housing monetisation schemes must be seen in a holistic perspective, taking into consideration other public and private income, support and welfare sources. Currently there is growing potential for a "welfare trap" as receiving a CPF LIFE monthly income could render many elderly ineligible for other means-tested benefits. "They will lose their Medifund, they will have to pay for the medicine. They have other services like meals-on-wheels, housekeeping, laundry, transport. They will lose all that if they have this money," said Fiona Hon, a senior care manager at Hua Mei Centre for Successful Ageing. Closer coordination to avoid a "welfare benefit cliff", by gradually reducing welfare support, will help ensure that the elderly are genuinely better off from participating in the LBS or SHB.[26]

(v) *Should government think beyond monetisation tools to help retirees age in place?*

While existing tax incentives and housing priority schemes are useful to promote living in proximity to aged parents, they may be insufficient to bring about substantial shifts in living and caregiving arrangements unless the right kind of housing options are also available. To complement monetisation schemes, HDB can consider offering new apartment types and re-designing the layout of HDB precincts to better help older people age in place.

HDB has already introduced customised housing options for seniors, in the form of Studio Apartments (SAs) integrated within existing public housing estates. The SAs come with elder-friendly fittings and features such as lever taps, non-slip tiles, hand bars, emergency pull-cords and heat detectors that activate alarms. Space is also allocated for social and community facilities managed by commercial operators and voluntary welfare organisations. This is encouraging, but HDB surveys suggest that the elderly prefer to stay with their spouses, close to their children and families, rather than in specialised elderly accommodation. To help them age in place, previous HDB schemes can be revived. Examples are the multi-generation flats introduced in 1987, and "granny flats" introduced in 1991 located alongside larger flat types in the same block, and meant for joint application by elderly parents and children. Both schemes were eventually discontinued due to low demand (the elderly population was much smaller in the 1980s) and abuse by households sub-letting the adjoining studio or granny flat.[27]

Conclusion

Due to Singapore's home ownership policies, market-driven asset appreciation and rising house prices, a large portion of household wealth is locked up in residential housing. Arguably, a similar situation exists in the USA, Australia and several Eurozone countries including the UK and France, in terms of the proportion of household wealth held in property. With a more diverse population, an increasingly volatile housing market and

[25] MND (2012).
[26] Channel News Asia, "Experts Call for Simpler HDB Monetisation Schemes" by Olivia Siong, 6 Jun 2013. From http://www.channelnewsasia.com/news/singapore/experts-call-for-simpler/699748.html accessed 1 Jul 2012.
[27] From time to time, these suggestions have been re-surfaced, such as by the 1999 IMC on the Ageing Population, but have not been implemented.

impending demographic changes, the continuing emphasis on home ownership may reduce long-term retirement security for some. This calls for a more nuanced approach and finer coordination between policymakers involved in housing and retirement issues.

Following decades of housing asset accumulation in Singapore during the period of rapid economic development, it is timely now to consider how housing norms and policies should incorporate the objective of "de-cumulation" or dis-saving as Singaporeans age. DPM Tharman opined that as Singapore society ages, the demand for different ways to convert the savings in homes into a source of retirement income will grow.[28]

At the same time, a significant number of elderly households do not have substantial housing assets to monetise. According to the 2008 HDB Sample Household Survey, 8.9 per cent of elderly HDB residents live in rental flats, compared to 3.0 per cent of the overall HDB resident population. 41.1 per cent of elderly HDB households lived in 3-room or smaller flats, and many live in older estates with shorter remaining lease periods. These factors will limit their ability to benefit from the monetisation options discussed, and they will continue to require direct social transfers. While well-designed housing monetisation schemes have a useful role to play, they must be part of a larger strategy for retirement adequacy.

Task

As the Chairperson of an inter-agency committee on retirement adequacy and elderly policy, consider the optimal balance between housing accumulation and divestment, as households go through different phases in their life cycle. How can policymakers achieve a stakeholder society, while avoiding excessive consumption or investment in property that results in "asset rich, cash poor" households? How would you assess the current options for housing monetisation in Singapore? What policy changes would you recommend to improve current outcomes, and what are the risks and limitations of your proposals?

[28] Shanmugaratnam (2012), "Committee of Supply (Speech 1)".

Annex A

Silver Housing Bonus

Eligibility Criteria

Age, citizenship	• At least one lessee is a Singapore Citizen aged 55 or above
Income	• Gross monthly household income of $3,000 or less
Existing Property (Sell)	• HDB flat (met Minimum Occupation Period for resale), or private property of Annual Value of $13,000 or less; and • No concurrent ownership of second property
Next Property (Buy)	• Smaller HDB flat (up to 3-room) or Studio Apartment; and • Purchase price does not exceed selling price of existing property
Housing Transactions	• Book new HDB flat or Studio Apartment, or apply to buy resale flat: (a) before selling existing property; or (b) within 6 months of completing sale of existing property; and • First housing transaction takes place on or after 17 February 2012

Top-up Requirement and Bonus

Net Sale Proceeds	CPF Top-up Requirement	Net Sale Proceeds Keep in Cash	Bonus in Cash
Less than $60,000	All net sale proceeds#	$0	$1 for every $3 top-up
$60,000 to $160,000	$60,000#	$0 to $100,000	$20,000
More than $160,000	$60,000# + Further top-up (Net sale proceeds – $60,000 – $100,000)^	$100,000 + Remaining after further top-up	$20,000

* Net sale proceeds = Selling price of existing property less any outstanding loan on existing property, refund to CPF Retirement Account (RA) and Medisave Account (MA)[29], resale levy,deductible of up to $15,000 for ancillary costs, and cash used for purchase of next property
# Lessees can decide how to split the $60,000 top-up across their CPF RAs
^ Top up into CPF RA of lessee with lowest RA balance, up to the prevailing Minimum Sum (MS).

Those who are unable to top up the full $60,000, because they would exceed the prevailing MS if they do so, will receive a $1 cash bonus for every $3 they could top up.

CPF LIFE

All lessees will use their full CPF RA savings to purchase a CPF LIFE plan if they have at least $40,000 (if below age 65) or $60,000 (if aged 65 to 79) in their RA after the top-up.[30]

[29] Withdrawable CPF refunds after setting aside the cohort Minimum Sum and Medisave Required Amount in the CPF RA and MA respectively will also form part of the net sale proceeds.
[30] Those aged 80 and above are not eligible to join CPF LIFE.

Annex B

Enhanced Lease Buyback Scheme

Eligibility Criteria

Age, citizenship	• All lessees at CPF Draw-Down Age (currently age 63) or older • At least one lessee is a Singapore Citizen
Income	• Gross monthly household income of $3,000 or less
Flat Type	• 3-room or smaller HDB flat • No concurrent ownership of second property • All household members lived in flat for at least 5 years

Top-up Requirement and Bonus
All lessees will use their net proceeds to top up their CPF Retirement Account (RA) to their specified top-up requirement.

E.g. Two lessees, combined shortfall refers to the sum of all lessees' shortfall to their respective specified top-up requirement:

Net Proceeds	**Total Top-up to CPF#**	**Net Proceeds Keep in Cash**	**Bonus in Cash**
Each lessee's share less than own shortfall	All net proceeds	$0	$20,000 if total top-up is $60,000 or more; ($1 bonus for every $3 top-up otherwise)
Each lessee's share sufficient to meet own shortfall	Higher of combined shortfall or $60,000	Less than $100,000: Net proceeds – (combined shortfall or $60,000)	
	Higher of combined shortfall or $60,000 + Further top-up^	$100,000 or more: $100,000 + Remaining after further top-up	

* Net proceeds refer to the proceeds unlocked from purchase of tail-end lease of flat less outstanding loan and deductibles incurred during the transaction
^ Into CPF RA of lessee with lowest RA balance, up to the prevailing Minimum Sum (MS)
# Each lessee will use own share of net proceeds to first top up to his specified top-up requirement. $60,000 and further top-up requirements are determined on a household basis, subject to prevailing MS cap

CPF LIFE
All lessees will use their full CPF RA savings to purchase a CPF LIFE plan if they have at least $40,000 (if below age 65) or $60,000 (if aged 65 to 79) in their RA after the top-up.[31]

[31] Those aged 80 and above are not eligible to join CPF LIFE.