

# Forum on CPF and Retirement Adequacy

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Shangri-La Hotel

# Housing and the CPF System

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# **CPF and Housing**

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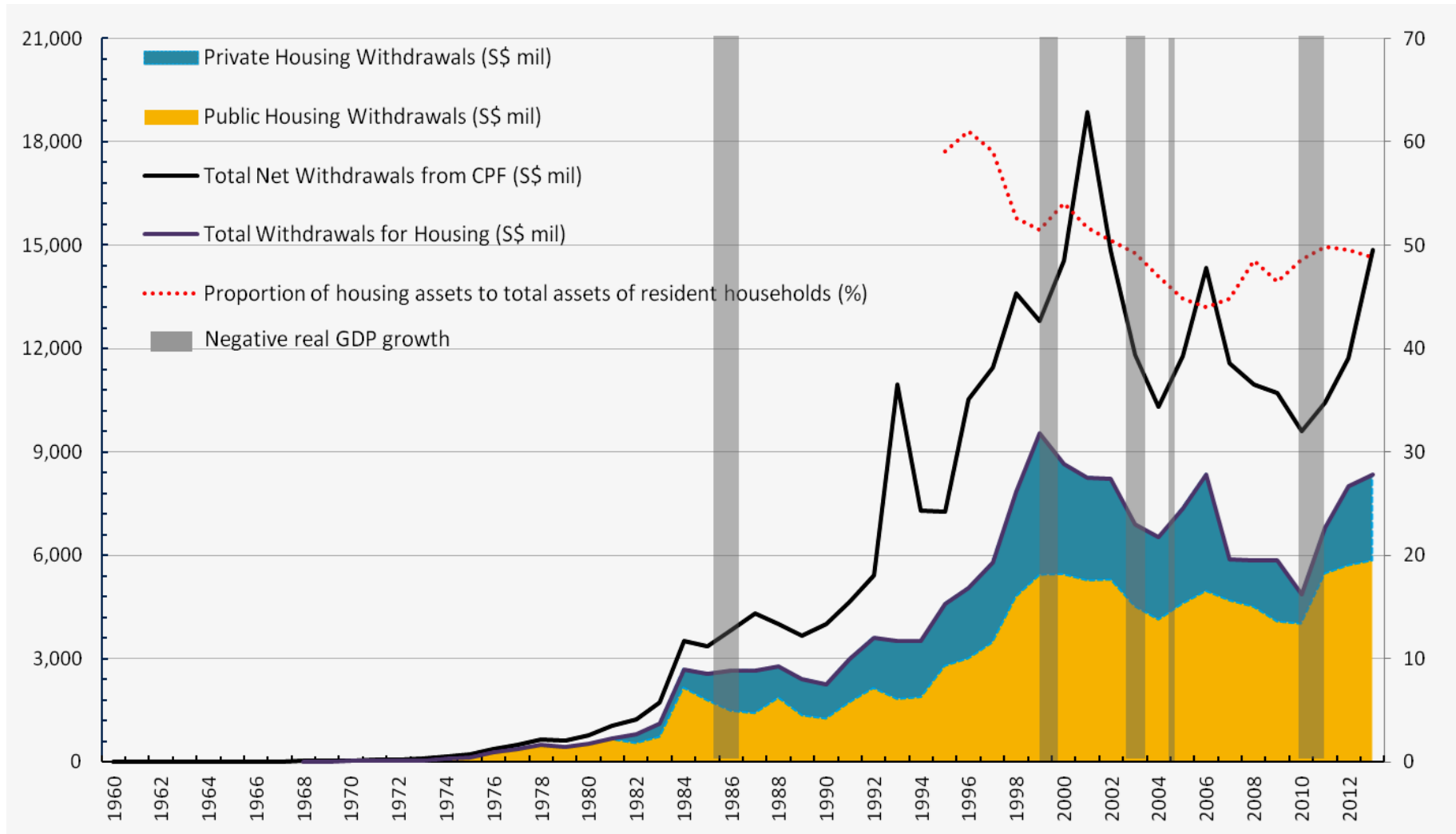
**Department of Real Estate, NUS**

**“Forum on CPF and Retirement Adequacy”**

**Institute of Policy Studies, NUS**

**22 July 2014**

# Annual CPF Withdrawals 1960 to 2013



# Housing is dominant use of funds

- Strong pro-homeownership policy bias since 1968
- Almost unfettered use of funds for housing finance
- Lack of viable alternative assets
- “Sexy” expected returns:
  - Liberalization and “marketization” of HDB housing
  - Asset enhancement
  - Prolonged boom
  - State largesse through housing grants
  - “In-the-money” put option
  - The Singapore “land myth”

# Implications

- Constrained retirement adequacy
  - Low cash balances
  - About half of active members cannot meet MS at 55
- Poorly diversified household portfolios
  - Nest-egg is vulnerable to housing sector shocks and wider systemic risks
  - Exposure varies by cohort
- Illiquid
  - monetisation channels needed
- Pro-cyclical and potentially regressive

# Current monetisation options

- $\approx 30\%$  of non-rental HDB flats are owned by elderly citizens aged  $\geq 55$ . Of these,  $> 220,000$  are fully paid-up.
  - 1. 10% of elderly households (ehhs) sublet flat or spare room(s)
  - 2. Sell and downsize\*
    - In 2012, 1,938 ehhs sold flats. 1,077 bought Studio Apartments; 518 bought other flats, 263 became occupiers in and 80 rented other flats
  - 3. Lease Buyback Scheme (LBS)\*
    - From 2009, owners of 3R (or smaller) flats can sell tail-end of lease to HDB but retain 30-year lease
    - Take-up from 2009 to 2012: 471 ehhs and in 2013: 240 ehhs
- \* Silver Housing Bonus (SHB) available under Options 2 & 3.

# Why are options unpopular?

- Housing equity tends to get drawn down slowly. Is it for financial preparedness?
- Room subletting: Loss of privacy, no spare room, security concerns
- With SA or LBS, longevity risk remains
- Design & accessibility issues with SA and estates
- Loss of medical benefits as rent/annuity boosts income
- Bequeath motives
- Leave equity in house as precautionary savings
- Low economic literacy



# Resurrecting Reverse Mortgages

- *Owner-occupiers* borrow against value of housing equity
  - Proceeds are drawn down as lump sum, annuity &/or line of credit
  - Quantum depends on borrower & property characteristics, house price inflation and interest rates
  - Repaid with interest only upon sale, moving out, death or maturity
  - Home-owners can age-in-place
- 1<sup>st</sup> launched in Jan 97 by NTUC Income for private housing
  - Extended to HDB owners in Mar 2006
- Not well subscribed
  - Pricing and margin calls
  - In US, banks offered RMs as “forward” mortgage business fell

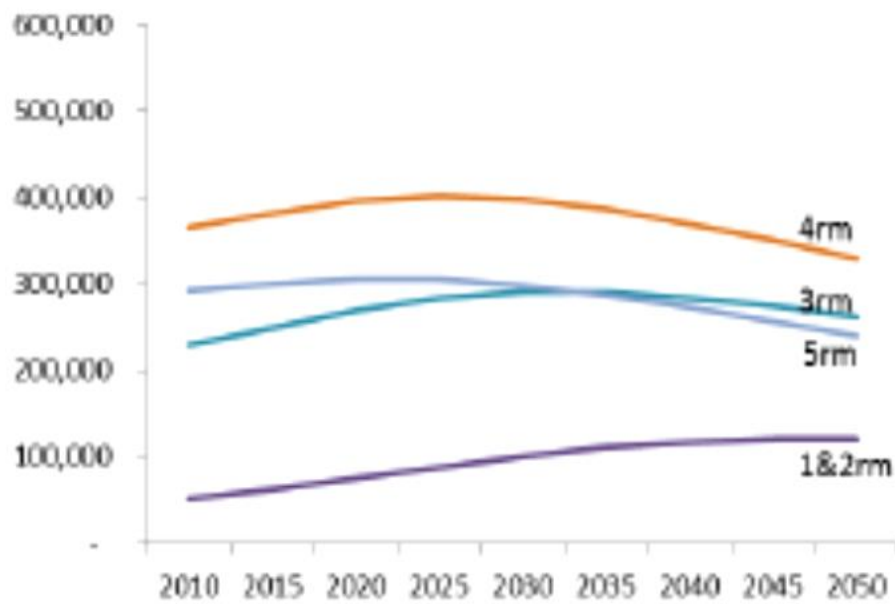
## Issues with RMs

- Not well understood by elderly
  - Potential for abuse means institutional support needed
  - Require consumer safeguards and in-depth financial assessments
- Adverse selection and moral hazard problems
- Who underwrites declines in collateral value?
- Should proceeds be indexed for inflation?
- Should annuity count as income?

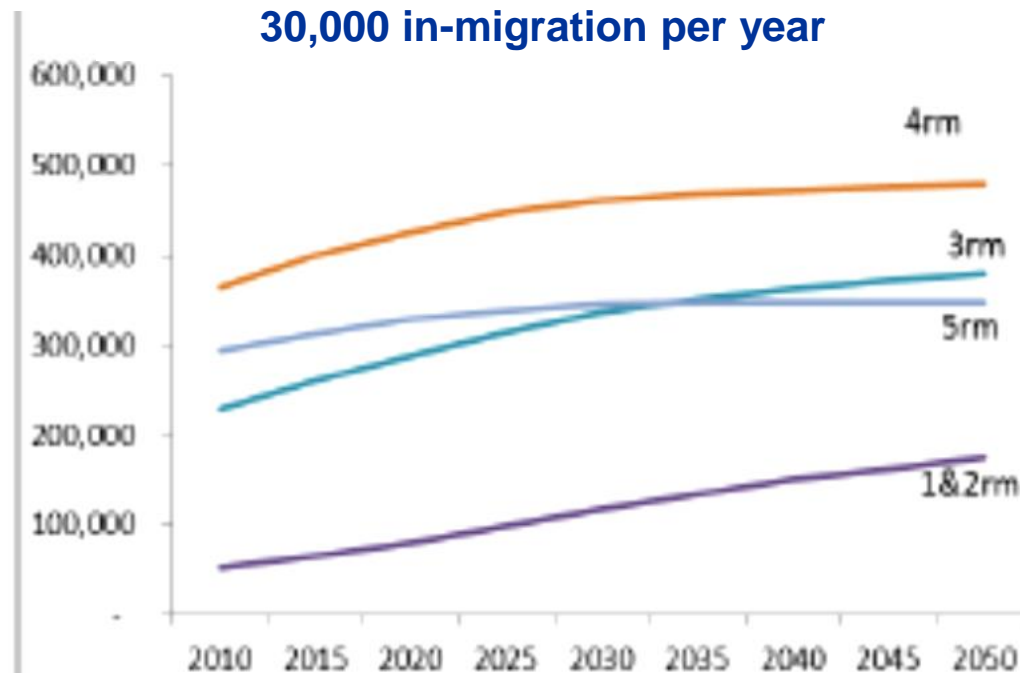
# A “wicked” problem

Monetisation requires high prices/rents but this lowers affordability and constrains flexibility to re-boot housing paradigm.

**Scenario 1: TFR at 1.24 births per woman, no in-migration**



**Scenario 2: TFR at 1.24 births per woman, 30,000 in-migration per year**

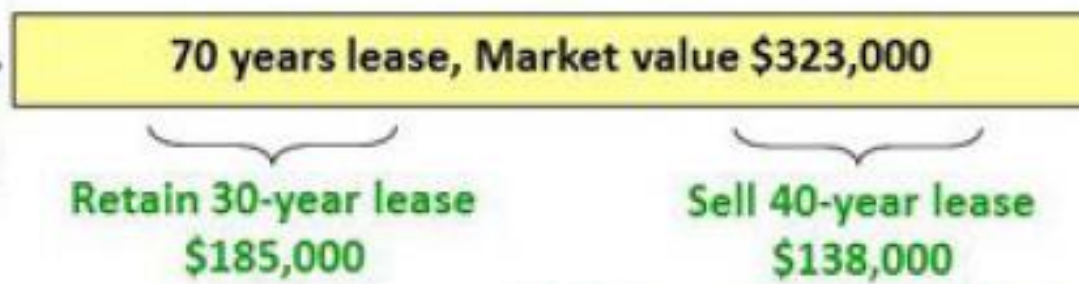


Source: Chris Gee and Lum Sau Kim, “Market Influences in Singapore’s Public Housing System”, 2013

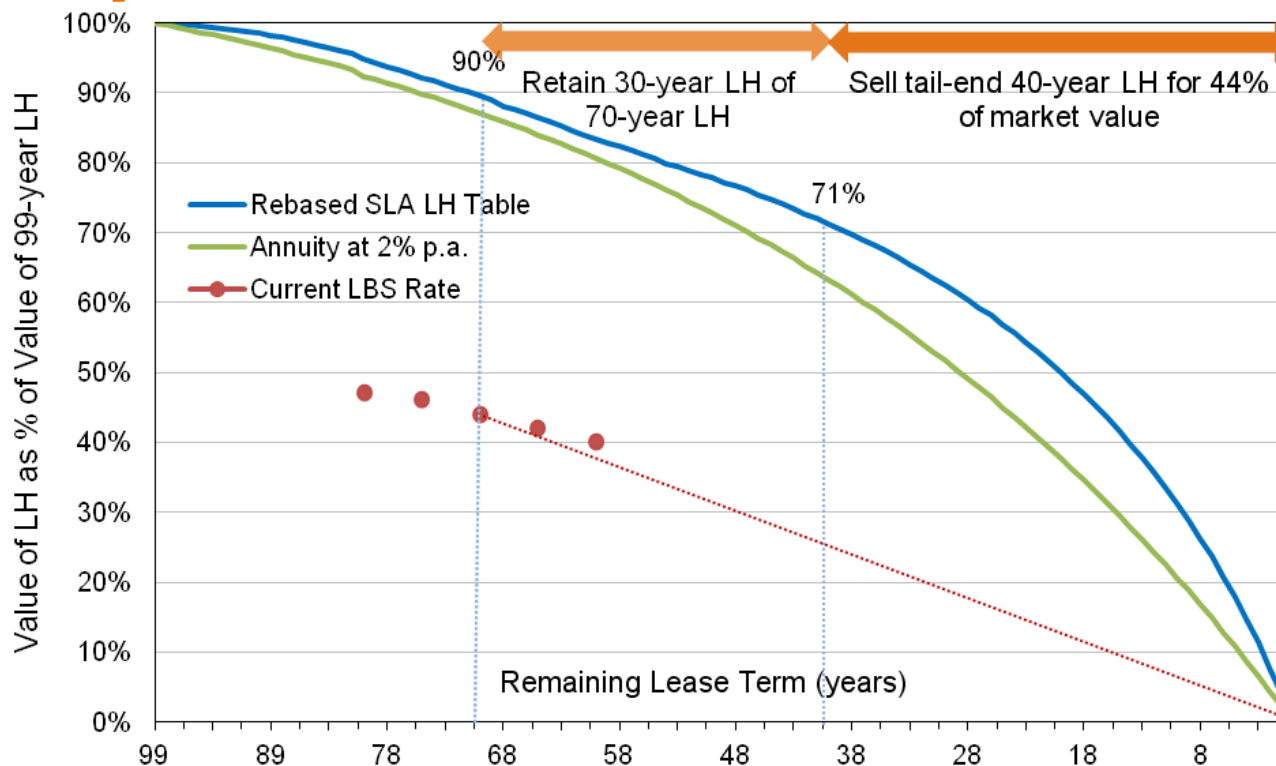
# Leasehold value decay

- Leaseholds (LHs) are decaying financial assets
  - HDB LH interest is only in flat, not in the land or common areas
  - Credit constraints on LHs with remaining balance < 60 years increase prudence but depress value
  - Obsolescence and speed of SERS
  - What are we bequeathing when lease expires?
  - Lease pricing affects nearly all monetisation options

HDB LBS example:

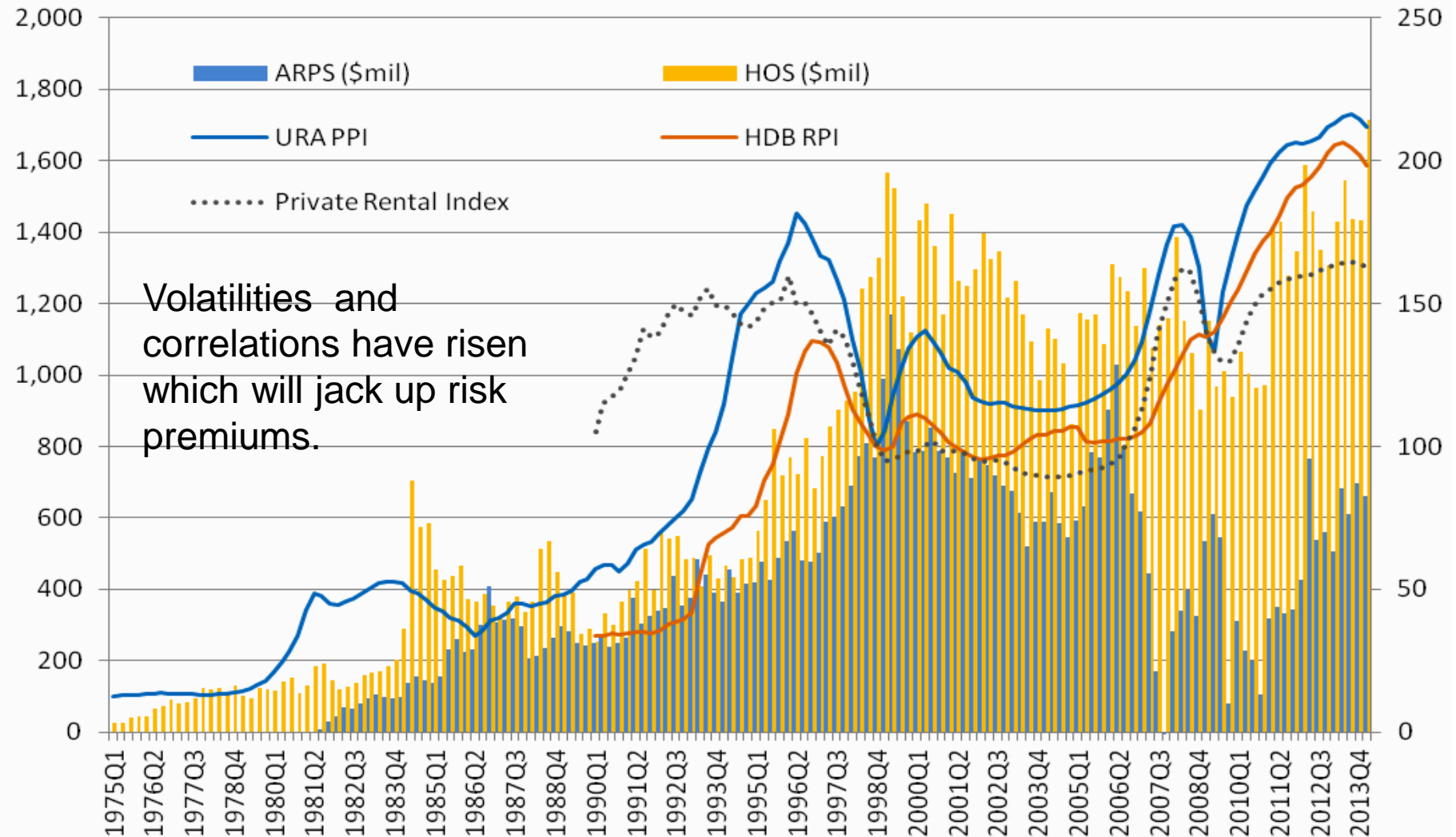


# How to price HDB LHs?



Remaining Lease		Sold tail-end Lease		LBS proceeds	Implied discount
Years left	% of 99-yr	Years sold	% of 99-yr	% of market value	% p.a.
99	100%	69	89%	50%*	1.94%
90	97%	60	83%	49%*	1.77%
80	95%	50	78%	47%	1.70%
75	92%	45	75%	46%	1.64%
70	90%	40	71%	44%	1.61%
65	86%	35	67%	42%	1.57%
60	83%	30	63%	40%	1.53%
40	71%	10	31%	20%	1.50%*

# Quarterly Withdrawals and Indices 1975Q1 to 2014Q1



# Future path of housing prices

- Increasing selling pressure on assets for consumption
  - May not be an “asset meltdown”
  - But price declines can be amplified by higher interest rate regime
  - Complex transmission loops between housing and economy
- Expect “clustering”, i.e. the simultaneous re-balancing of household portfolios when we hit major demographic bumps or tipping points
  - Impacts vary by cohort
  - Herding & animal spirits
- Managing price expectations is key





