**Singapore Perspectives 2018: "Together"**

**Conference Background Paper**

# Harnessing Singapore's Longevity Dividends: The Generational Economy, Society and Polity

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## Executive Summary

Population has always played an integral part in Singapore's development story, given its open economy and lack of natural resources. The high birth rates of its early years allowed Singapore to enjoy its first demographic dividend from 1965 to 2000, which contributed to about a third of Singapore's GDP per capita growth. This dividend was reversed as our population started to age, with growth in the old-age population exceeding growth in the labour force, portending an estimated drag of 1.5% points to annual GDP per capita growth from now to 2060.

Singapore's population challenges and policy responses have been well publicised in recent years. This IPS study seeks to elucidate the opportunities for further demographic dividends and policy adjustments and innovations, to ensure that Singapore remains an open and vibrant city-state with a productive population, and a stable, cohesive and inclusive society.

**Longevity Dividends.** Assuming a society is sufficiently forward-looking and can respond appropriately, longer life expectancy provides individuals greater incentives to invest in their human capital (particularly in health and education). These human capital investments can lead to large gains in healthy, productive life years that enable people to accumulate savings to help sustain consumption at older ages. These savings can be channelled into investments in innovation and technology that boost productivity of workers and yield investment income that can finance old-age consumption.

Harnessing these longevity dividends depends on effective policies and institutions, as well as social norms and behaviours that allow the full economic and social benefits to accrue. On the other hand, an over-reliance on individually financed investments in human and economic capital will accentuate income and wealth inequalities. Individuals have great difficulty hedging the risk of outliving their retirement savings, in particular, their financial and leasehold housing assets.

**Policy Options.** Whilst immigration can partially offset the reversal of this first demographic dividend from population ageing, immigrants also grow old, and in the absence of other sources of productivity growth, an ever-larger intake of immigrants would be needed to sustain GDP per capita, let alone increase it. Whilst official government policy continues to be one of openness to immigration, there is recognition that a well-calibrated immigration policy is one of a number of measures to mitigate the economic effects of population ageing.

Mechanisms such as tax-financed transfers and social risk pooling are alternative methods to finance old-age consumption that do not rely on familial support, which will become less reliable given Singapore's demographic trends. Whilst Singapore has developed well-regarded institutions for social risk pooling such as CPF LIFE (retirement income) and MediShield Life (hospitalisation expenses), the concept of social risk pooling could be extended into other areas such as long-term care, employment shocks and to permit ageing-in-place.

There is already recognition that as social needs spending rises with the ageing population, tax-financed transfers would have to increase and tax revenues likewise. Tax increases will have an effect on economic competitiveness, an important matter for a global city-state such as Singapore with an open economy.

**Social Attitudes Towards Inter-Generational Solidarity.** Acceptance of tax increases, or the increased utilisation of the returns from investing national reserves, and the commitment to social risk pooling are dependent on the level of inter-generational solidarity in society.

The Institute of Policy Studies conducted a nationally representative survey of Singaporean citizens and permanent residents at the end of 2017 to investigate their attitudes towards inter-generational transfers and ageing issues, in particular, how higher social spending on the elderly should be financed. The key findings are:

- Dissonance among respondents (across most age groups) about whether each generation should be self-reliant and not depend on other generations for support.
- Disconnect in expectations about who should be responsible for providing care for the elderly in the absence of familial support. In contrast to the "Many Helping Hands" concept, respondents in the survey indicated that after family, the government is next in line to take care of the elderly, as opposed to the community.
- Longevity risk may be forcing Singaporeans in the "sandwiched" generation (caring for both younger and older generations) to consider reserving their assets for their own old-age security, rather than passing them as an inheritance to the next generation.
- Mixed responses to whether increased taxation or using a larger share of the returns from investing national reserves should be used to finance higher social spending on the elderly. Those aged 45–64 years were more likely to disagree with paying higher taxes—this age group experiences the highest tax burden and may be feeling the greatest uncertainty about financing their own post-retirement living expenses.
- Overwhelming agreement on age discrimination for older workers aged 55 years and above looking for work.

We hope the Singapore Perspectives 2018 Conference, entitled "Together", will enrich the national discourse on Singapore's demographic trajectory. If demography is destiny, we should urgently shape the mind-sets, policies and decisions today for the best outcomes for our current and future generations.