

# Housing Inclusion and Social Equity - Singapore's experience

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## History /Background the HDB-CPF Link

### **[1] Housing Development Board (or HDB)**

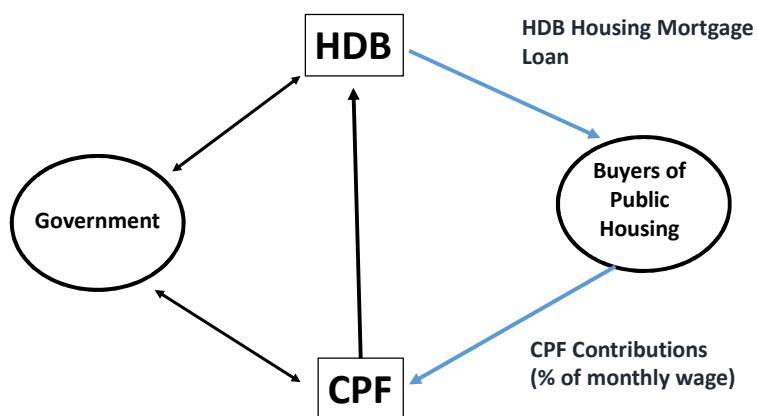
- initial focus was to provide affordable rental housing
- February 1964, Home Ownership Scheme for the People
- to encourage Singapore citizens to have a stake in the newly-formed country, to have a sense of belonging and to promote rootedness
- existing tenants were encouraged to buy their flats through subsided mortgage loans and attractive repayment scheme
- home ownership rate remained low as most workers do not have the purchasing power

## History /Background the HDB-CPF Link

### [2] Central Provident Fund (or the CPF).

- CPF administers the compulsory savings scheme, which is a defined contribution scheme
- In 1968, the CPF Act was amended to allow members to withdraw part of their savings for housing

## HDB-CPF LINK: Unique and innovative housing financing mechanism to accumulate housing wealth



## Home Ownership

- The CPF-HDB link has increased home ownership rate from 29.4% in 1970 to 90.5% in 2013
- Such broad-based home ownership is unparalleled in anywhere else
- While home ownership is not unique, instituting a mechanism to make home ownership affordable to all Singaporeans including the lower income households is unique.
- HDB Survey findings in 2013 indicate that HDB residents feel a sense of belonging and are house proud. Most feel that their HDB asset is value for money.
- There was a 4% increase in the proportion of HDB homeowners who see their HDB flats as value for money - 90% in 2013 compared to 86% in 2008.

## Social Inclusiveness, Ethnic Integration and Socio Economic Integrations

- High-rise, high density living is a way of life for 80% of Singaporeans
- framework to implement the Ethnic Integration Policy
- HDB blocks and estates have clearly defined racial quotas.
- In any blocks or estate, the diversity of ethnic groups should more or less reflects the composition of ethnic groups in Singapore.
- The Ethnic Integration Policy was implemented to prevent the formation of ethnic enclaves and promote racial harmony in HDB estates.

## Ethnic Distribution

	1987	1993	1998	2003	2008	2013
<b>Chinese</b>	77.2	76.2	76.5	74.4	73.8	73.5
<b>Malay</b>	15	16	15.7	16.5	16.3	15.6
<b>Indian</b>	6.4	6.6	7	8	8.2	8.9
<b>Others</b>	1.4	1.2	0.8	1.1	1.6	2

Source: HDB (2014)

- Chinese continued to form the majority of HDB dwellers, followed by Malays, Indians and others.
- Compared with the national ethnic composition, there was a slight over-representation of Malays.

## Housing Policy and Promoting Pro-family ties

Number of Generations	1993	1998	2003	2008	2013
<b>Family-based Household</b>	<b>96.9</b>	<b>94.5</b>	<b>91.3</b>	<b>90.9</b>	<b>90.8</b>
One Generation	7.6	10.9	13.5	15.1	13.9
Two Generation	79.4	75.4	69.9	67.2	66.8
<b>Three or More Generation</b>	9.9	8.2	7.9	8.6	10.1
<b>Others</b>	<b>3.1</b>	<b>5.5</b>	<b>8.7</b>	<b>9.2</b>	<b>9.2</b>
Total No of households	594,179	728,815	821,126	866,026	908,499

Source: HDB (2014)

- Generous housing grants/subsidies if they were to purchase a home near either of their parents.
- The proportion of elderly households with multi-generational families had risen, indicating more married children living with elderly parents.

## Retirement Wealth as Housing Wealth

- retirement wealth accumulated as housing wealth
- an asset-based social security
- Housing and retirement policies are interwoven
- Over 70% of flat owners service housing loans solely with their CPF savings
- Created “asset-rich” retirees
- But may be “cash-poor” especially for retirees who were low wage workers

## CPF Members Entering the Workforce Today have Adequate CPF Savings when they Retire

Net IRR for Men and Women (CPF LIFE Standard Plan)

	30P	50P	70P
Men	87.5%	70.2%	62.9%
Women*	80.0%	63.9%	58.8%

*\*IRRs for women are lower due to lower wage growth and longer life expectancy.*

- The median male member will replace **70%** of his pre-retirement earnings when he retires at age 65.
- For females, it is **64%**.

Source: Authors' calculations

## Singapore's Net IRR Compares Well Internationally

	30P	50P	70P
Men	87.5%	70.2%	62.9%
Women	80.0%	63.9%	58.8%
OECD (Average of 34 countries)	82.8%	72.0%	63.4%
World Bank Recommendations*	55% - 81%	53% - 78%	53% - 78%

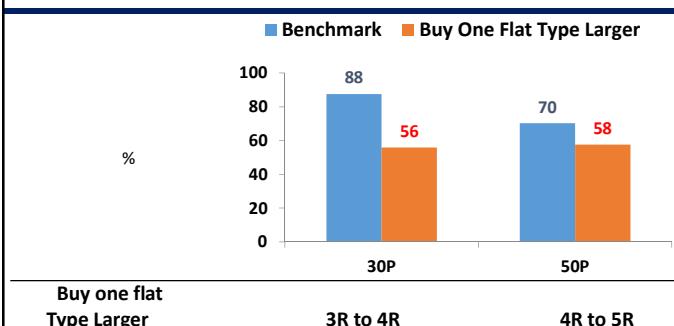
\*Lower bound corresponds to net final year wage and upper bound corresponds to net average lifetime wage.

- In countries where **home ownership** is low, retirees would need to pay for rent in retirement.
- As most Singaporeans own their homes, they need not pay rent and save on rental expenses in retirement. Taking into account imputed rental income, the net IRR would be higher.

	30P	50P	70P
Men (with imputed rent)	91.5%	77.8%	69.6%
Women (with imputed rent)	86.8%	73.8%	67.3%

Source: Authors' calculations

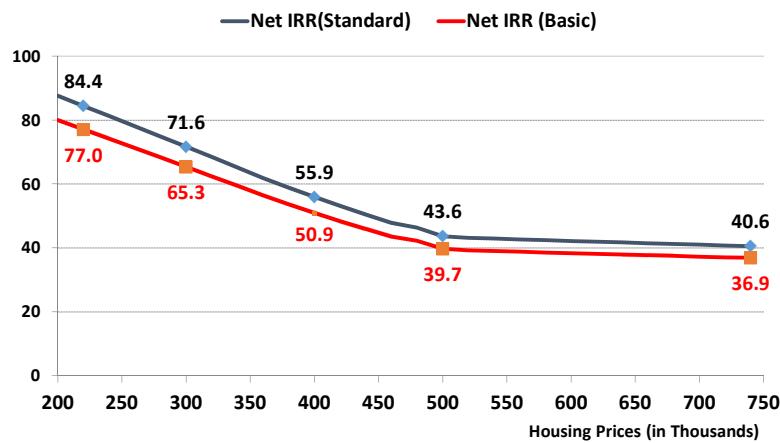
## Prudent Housing Choice is Important for Retirement Adequacy,



- The median male member who buys a flat one size larger will have a IRR of 58% instead 70% if he buys a flat type within his means.
- The difference is more pronounced for lower income members.

Source: Authors' calculations

## Tradeoff between Retirement Adequacy and Housing Consumption/ Affordability (for median worker)



Given his income, lower house price will increase his income replacement rate.

Source: Authors' calculations

## Policy Issue and Challenge: CPF withdrawals and Retirement Adequacy

- Housing shortage was an immediate concern when Singapore was a young nation
- With an ageing population how to finance retirement becomes a pertinent issue
- Housing policy includes helping elderly to monetize their housing asset through:
  - Subletting a room
  - “Right-sizing”
  - Lease buyback scheme

## Lease Buyback Scheme

- Homeowners sell part of the remaining lease of their flats to HDB.
- allows them to “unlock” part of their housing equity while continue living in their homes and receive a lifelong income stream to supplement their retirement income.
- Introduced in March 2009, but received a lukewarm response.
- In April 2015, the scheme was enhanced
  - relaxation of flat size and income restrictions
  - flexibility in the length of lease retained
  - Flexibility in the requirement to top up their CPF RA with the LBS proceeds.
- In the first two months after the enhancements kicked in, there were 450 applicants.
- Compared with 471 households between 2009 and 2012
- The HDB survey findings indicate that 80.2 percent of the elderly indicate that their existing flat is the place to live in when old.

## Policy Issue and Implication: Lifecycle Approach and Impact on Housing Market

- Singapore has taken a lifecycle approach towards the public housing system, catering to the needs of young couples and the elderly.
- To make housing affordable, housing grant schemes were introduced, it helps young couples to buy subsidized housing.
- Through the Asset Enhancement Programme, the government positions public housing as an appreciating asset.
- Through the monetization scheme, homeowners could unlock their housing equity to finance retirement.

## Policy Issue and Implication: Lifecycle Approach and Impact on Housing Market

- A lifecycle approach could be a double edge sword
  - house prices need to rise adequately to be unlocked for retirement
  - house prices have to be kept affordable for home buyers buying in the resale market

## Right-sizing: Preferred Housing Types to Move To

Preferred Housing Type to Move to	Age Group (Years)						All
	Below 35	35 - 44	45 - 54	55 - 64	65 & Above		
<b>HDB</b>							
Studio Apartment	-	-	1.1	9.4	15.2	2.5	
1- & 2-Room	0.2	1.5	4.2	9.2	9.3	3.4	
3-Room	12.5	8.5	17.1	25.6	19.2	14.4	
4-Room	29.4	27.7	32.8	15.4	15.5	26.9	
5-Room	24.6	28.1	20.9	11.9	5.8	22.1	
Executive	11.0	6.0	6.3	-	-	5.9	
	N**	20,551	40,000	28,418	15,599	5,960	110,528

Source: HDB (2014)