

# **IPS-Nathan Lectures**

## **Singapore: The Next Fifty Years Lecture IV: Demography and Family**

**Ho Kwon Ping  
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## Introduction

Good evening and welcome to the fourth IPS-Nathan lecture, as part of the S R Nathan Fellowship for the Study of Singapore.

Tonight's topic is Demography and Family, which should be a rather tame and sedate topic, dealing with genteel aging and gentle babies. But as I researched this topic I found that it is in fact a raging cauldron of highly emotional issues because it touches all of us very personally.

I will deal with two issues at opposite ends of the life-cycle spectrum: how to provide for people in retirement, and how to encourage young people to have babies.

To recognise the new year, I shall not call them my proverbial elephants any more, but instead, my bearded ram and baby goat in the room.

The first issue is retirement adequacy. 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 to 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, largely, been met. However, because of increasing life expectancy, the CPF 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.

Further measures which tweak the increasingly complex CPF have just been announced, including increasing the contributions from older employees as well as their employers, and raising the salary ceiling.

The CPF advisory panel has also made new proposals, and a new Silver Support Scheme or SSS has just been launched. These have all clearly helped to strengthen retirement adequacy. There are differing views as to whether they go far enough to actually provide sufficient retirement funding for the lower-income retirees, but such differences of opinion are to be expected.

Instead, I don't wish to dwell on these more immediate issues, but to ask a more long term question. Because of the continuing erosion of CPF's ability, by itself, to provide retirement adequacy, the scheme is on one hand, being continually tweaked and on the other, is being supplemented by external schemes such as the SSS. Further down the road, yet other schemes may be announced.

Instead of the CPF retaining its place as the centrepiece and the cornerstone of the Singapore retirement system, current trends may 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 this year's 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, a Big CPF may be simpler and better than many small supplements

On the other end of the spectrum, that of making babies, the central issue is whether we are prepared to take the perhaps radical steps which have enabled some developed Western countries to raise their birth rates from near terminal decline to more than replacement levels. Whether such steps, which largely involve creating a state-funded parental support eco-system, is prohibitively expensive or a vital necessity, depends on whether we consider our birth rate to be a strategic imperative of the same priority as say, National Service, which is certainly not cheap either.

Let me now develop the framework for a discussion of CPF-Plus.

The optimistic Singapore narrative talks about our young grasping the future in their hands to decide our nation's destiny. But going by our rate of ageing, perhaps the real future is one of precipitous decline and a silver-haired or balding nation burdening the younger generation and grappling with its unpreparedness.

We're one of the fastest ageing countries in the world. Today only around 10% of Singaporeans and 25% of Japanese citizens are 65 years old or more. But around 40 years from now, within the timespan we are discussing, we will intersect with Japan and shortly thereafter we will overtake it. In other words, in the next forty years, our elderly will triple in numbers – from 1 in 10 to 1 in 3. That rate of ageing is unsurpassed in the world.

From Third to First World in a single generation, and then from Young to Old in another single generation.

The corollary problem with such rapid ageing is that retirement adequacy can only erode as time passes. 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 is not the same. The ratio is increasing in favour of retirement years, so that what we save in our working lives have 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 retirement age was 55 years old, life expectancy was around 65 years old. This means that our parents worked during the first 85% of their lives (excluding of course non-working early years and other sources of income other than salaries) and their savings financed the remaining 15%. 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 old and the retirement age has extended to 62 years old. 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 old and they retire at say 66 years old.

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. For our parents, 15% of their life expectancy could be enjoyed as retirement; for us it will be 24%, and for our children, up to 28%. And so it goes on with approximately three years of increased life expectancy every decade but perhaps half that in terms of retirement age. Eventually almost one third of our life expectancy can be spent in retirement, and that will be double what the pioneer generation enjoyed. This seems to be great – social progress, active and happy retirement.

There is only one hitch: who's going to pay for all 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 70 years old and my children will have to retire at 78 years old. 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's 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 only have what you personally saved up, to tide you into retirement.

And whilst this is good for the state and avoids inter-generational funding pressures, it puts the pressure squarely on the individual Singaporean.

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 pay outs 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 painful 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 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 has been that if people were willing to monetize 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 at all in Singapore 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 will instead 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 work 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 PAP's 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. 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.

To erase anxieties and restore the CPF as the cornerstone of our 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 (such as by an advisory panel), 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 utilized by 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% or 10% -- 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 allows increases to the fund to future governments to decide.

In this case only the investment returns from the endowment fund would be utilized for CPF-Plus. This is how Medifund is structured, and it has grown from S\$ 200 million in 1993 to S\$ 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% profit. In order to get \$ 350 million a year, there needs to be around \$ 9 billion in the CPF-Plus endowment fund to begin start with.

Several basic principles should be adhered to 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, 4 to 5 years. In other words, there should be a means test for reasons of social equity. This of course also assumes that the 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 present CPF-only-for-workers model entirely, so that husbands can pay part of their own CPF into their wives' accounts if they are home-makers or care-givers. Or, to go a step further, these home-makers or care-givers are given an allowance from the state, which goes into their CPF. One of the biggest irritations of people who do national income accounting, is that if you are a homemaker, and you work your ass off, you don't actually contribute to the economy, but if you hire a foreign domestic worker, that maid actually contributes to the economy. That is one anomaly that I think every working mother, despite generating the same amount of work at home, realises. Our CPF system also does not recognise this.

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 haunts the pension systems of the developed world.

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 disincentivize savings. Second, drawing upon the reserves, even if only the Net Investment Returns or NIR, may slide us even further down the slippery slope of raiding the reserves, which started with the constitutional amendment to allow half the NIR to be used as current expenditure.

There are sound counter-arguments to these objections. To top up a person's CPF account 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 hand-outs because of its deferred impact. It can even be argued that such a scheme 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 hand-outs. They have rewarded and brought comfort to sections of the population.

As for drawing upon the net investment returns or NIR of the reserves to fund CPF-Plus, we need to recognize that not only is the NIR already being tapped for various purposes, but 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 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 -- 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. In any case, how much more of the NIR can be utilized rather than saved; for whatever purposes, and when, should all be a major part of our national conversation. In fact, the genie has been let out of the bottle once

the constitutional amendment was made to allow fifty percent of NIR to be utilised. This debate needs to occur among Singaporeans because this is the source of both, on one hand, of our conservative retention of our safety net, but at the same time it is a source of spending, for a generation of people that perhaps deserve to have proper retirement adequacy.

After having dealt with retirement adequacy and old age, let me now move from the geriatric end of the spectrum to the very young – all those who are capable, but not producing babies.

The second issue is whether we as a society are willing to do what it seems to be required, to bring birth rates back to and even exceed replacement levels. Contrary to what we used to think some ten to fifteen years ago, this clearly can and has been done, but the costs are not negligible.

Ever since the mid-1960's when the Government launched a population control program, our TFR or Total Fertility Rate has been continually declining. For 3 decades our TFR has been below the replacement rate of 2.1 births per woman, and since 2003, a dozen years ago, it has been less than 1.3 births per woman. We're hovering at the edge of the precipice, the so-called the low-fertility trap, which is when a confluence of demographic, sociological and economic trends all converge and create a self-reinforcing, unstoppable spiral downwards. A slight uptick last year is encouraging news, but hardly a trend yet.

A few years ago our population already started to shrink, although it has not been noticeable to most people because of the influx of new citizens and PRs. Arresting this trend will not be easy: one IPS finding was that even with an increased TFR to say, 1.8 births per woman, which is quite optimistic and is 50% higher than at present, the resident population will still start to decline in the next 15 – 20 years.

We would need to take in about 20,000 new citizens per year on a net basis -- meaning it has to be more in reality to offset those migrating out of Singapore -- to stem the decline and achieve simple zero population growth. This is about the size of the Marine Parade HDB resident population each year. It is not small. And with anti-immigration sentiments persisting, if at least not increasing, in-migration cannot fill the population gap.

However, the demographic future of Singapore need not be as dismal as statistics suggest, nor should we be defeatist. Birth rates in developed countries have somehow bottomed out and are starting to increase again. Demographers have discovered that when the Human Development Index or HDI increases, fertility rates decline but reach a level where it becomes a J curve and start to rise again. The HDI is a more holistic measure of development beyond simply economic wealth, which in my last lecture, I advocated that Singapore adopt.

The negative correlation between rising HDI and falling birth rates has been observed for decades and was once thought to be inevitable. After all, it was a trend with virtually every country observed – as lifestyles improve, parents want fewer children.

But a study, first published in the magazine Nature in 2009, found that at some point as the HDI continues to advance, meaning that as standards of living began to

improve even further, people don't produce less children – fertility rates start to rise again. Some Western developed countries such as France, Sweden and Norway have seen fertility actually climbing back to replacement levels after decades of continuing decline. In the US, fertility briefly surged above replacement level and is now hovering around there. New Zealand's TFR is now at replacement level.

What has caused this reversal in birth rates, and how can it be sustained?

The prevailing theory is that this considerable and apparently sustained uptick in fertility rates is due to changing notions of gender-roles within the family, work-life balance within careers, and government policies which support the ability of families to enjoy the natural happiness of raising children.

Studies in Europe have shown that before 1985, as more women went to work, couples have fewer children. Singapore's history corroborates this trend. But after 1985, the correlation reversed – countries where more women worked started to gradually have higher birth rates than those where more women stayed home. This has noticeably NOT happened in Singapore where birth rates have stayed stubbornly low. Other East Asian countries like Hong Kong and Taiwan have similar trends to Singapore. Why is that so?

Sociologists say the data suggest that countries which recognize through concrete policies that young families today only want more children if both parents undertake equal responsibility for child rearing, and that children are well taken care of while both parents continue to engage in their careers, will get a positive response from young parents. In other words, there is no need for campaigns to encourage people to have at least one and preferably two children, or to bribe them with cash grants to make more babies.

A two-child – or more — family is a natural desire of parents, but they are not procreating because the overall support environment is not conducive. Create a truly conducive environment and leave the rest to nature.

In fact, there is a phenomena in the behavioural sciences called motivation crowding theory, which when applied would mean that trying to use money to motivate what should be an intrinsic desire – that of having children – can have the perverse effect of reversing the desired result instead. So creating a suitable environment (which cannot be monetized as easily) is much better than direct cash hand-outs for bearing children.

What might such an environment entail for us in Singapore? Well, such truly pro-family policies will not come cheap. Sweden grants each new parent 2 months of paid leave which cannot be transferred between each other, and another full year – 360 days – of leave which can be shared or transferred between themselves. Parents on leave are paid 80 percent of their monthly salary for 80% of the total leave allowable, with a cap which is roughly S\$ 6,500. The balance 20% allowable leave is paid at a lower flat rate. So just as our state subsidises those go back for their annual reservist training, the state can do likewise if we move in this direction.

This seems to have worked. Sweden's previously declining fertility rates have almost returned to replacement levels, and further refinements are likely to spur even higher growth.

One refinement is an interesting example of how family dynamics operate and how the state can nudge behaviour. Data showed that Swedish mothers used up on average 75% of their total leave entitlement, but fathers only 25% or 2 months, and pressured their wives to take up the majority of the shared leave.

This was resented and so the government – recognising who ultimately calls the shots when it comes to child birth — will reduce the shared leave and give more to the father so that the pressure will be on them to use it or lose it. The state essentially helped mothers to nudge fathers to do their share of parenting – which was a key factor in convincing women to have more children. That means for the young guys out there, the reason why we're not having more kids is because you're not helping out with the responsibility that comes with having more kids. That's only part of the story.

High quality and inexpensive child care facilities are also important and Sweden again leads in the provision of such services, even to the extent of having overnight centres for children of single parents who have to do shift work. Sweden is just one example; other European countries pursuing the same policies have achieved similar results.

The takeaway for Singapore is that if we want the same birth rates as in Europe, we should work harder to promote work-life integration and gender equality within the family, so that for women there is no trade-off between having a meaningful career and enjoying motherhood.

The Singapore government is well aware of the success of these European countries, whose experts have visited Singapore and shared their experiences. But there seems to be either scepticism about the impact of long parental leave on fertility rates, or an unwillingness to confront the economic costs of such programs. Employers, already reeling under the current clampdown on foreign workers, will be extremely unhappy about having to give a lot more paid leave to their child-bearing employees.

But as our fertility rates continue to plunge while Europe starts to see a reversal, it behoves us to perhaps consider whether the strategic dangers of not stemming a population decline may actually outweigh the economic costs.

We need to decisively conclude whether we are facing an issue of demographic security requiring the same kind of mind-set shift which enabled national service to be implemented, despite the loss of economic productivity as well as cost to the state.

Furthermore, we may have to change the entire support system for the young family, beyond just increasing paternity and maternity leave.

An entire eco-system of SME's has to be created to undertake more of the work done by working parents. Liberalizing the employment of domestic helpers will not necessarily help and there is even some evidence to suggest that it may be counter-productive. Young families with domestic maids have found themselves on one hand, increasingly dependent on them to relieve their stress, but without increasing the intimacy of family life to encourage more children.

We need a network of SME's to which much housework, family meal preparation, and many other household chores can be outsourced. Reliable childcare facilities need to be more widespread, particularly in or near the workplace or home. This also creates the opportunity for an entire set of new SMEs to populate our economic landscape, and give job opportunities for all our young entrepreneurs. In fact, for those who think that this kind of expenditure is overdone, there's been a recent MIT study to show that every dollar spent on early childcare and early child education, actually saves thirteen dollars in total cost to the state later on in the development of that person. Facilities and services serving the dependents of young working families – both the aged and the infants – will also go a long way to encourage Singapore families to want to enjoy having rather than being stressed by, more children.

But unless we recognize that our current policies are not working and learn from other countries which have indeed achieved success, we will simply go into genteel decline and bemoan our fate whilst not doing much about it.

Before I wrap up, just a few words on the notion of the family. While it may be an exaggeration to say that the traditional family is under assault in the West by new trends such as single parenthood, same-sex marriages with adopted children, unmarried parents, and short-lived marriages, alternatives to the traditional nuclear family are certainly growing.

For many years the Singapore policy of being pro-family meant active discouragement of whatever lifestyles were considered not pro-family, to the extent that single parents or unmarried singles, found it difficult to access state-funded benefits such as public housing. Insofar as the goal of an inclusive society, to which we are committed, means that all Singaporeans are equally entitled to state protection and assistance, we do need to more tolerant towards alternative family norms, whilst not undermining the fundamental nuclear family model.

In conclusion, the demographic shape of Singapore is changing very rapidly and the society our children will inherit may not even be recognisable to us today. The twin challenges of providing retirement adequacy and encouraging a replacement-level birth rate, may require paradigm shifts in thinking. Inevitably there will be trade-offs, for no solution is ever completely cost-free. The discussion for these trade-offs, however, needs to be had openly, and as soon as possible.

We need to debate new ideas and assume that everything is do-able unless otherwise proven, rather than immediately reject anything new as not-doable unless proven otherwise. I found out that in brainstorming sessions, putting the burden of proof on the naysayers is a good way to encourage the flow of new ideas. This means to say that everything is doable unless it is proven otherwise, rather than everything is not doable unless you prove it can be done.

I hope to have contributed to this debate through a few suggestions made possible by this lecture series. But I hope that more suggestions will be forthcoming and that our leaders in the policy formulation corridors of ministries or parliament will not dismiss ideas from all of us as out of hand and un-informed and irresponsible ideas. An active citizenry is about embarking on a process of enquiry to assess what works for the future of Singaporeans. I think it behoves all of us to have the courage to

make suggestions which may be laughed at, but for you to make it, because only then, will we achieve the civil society that we seek.

My next lecture will be my final one. It will be on the most amorphous and the most challenging topic: Society and Identity, and will be held on April 9. And I think Society and Identity probably is the most important issue we face, as a society and as a people, going forward.

I have learnt, in the course of four lectures so far, how much I do not know through this journey, and hope to share some of that ignorance with you then.

Thank you and have a good evening ahead.