Forum on CPF and Retirement Adequacy

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Housing and the CPF System

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Annual CPF Withdrawals 1960 to 2013

- **Private Housing Withdrawals (S$ mil)**
- **Public Housing Withdrawals (S$ mil)**
- **Total Net Withdrawals from CPF (S$ mil)**
- **Total Withdrawals for Housing (S$ mil)**
- **Proportion of housing assets to total assets of resident households (%)**
- **Negative real GDP growth**

![Graph showing annual CPF withdrawals from 1960 to 2013](image)
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

- ≈ 30% of non-rental HDB flats are owned by elderly citizens aged ≥ 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

- 1st 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:

- Retain 30-year lease $185,000
- Sell 40-year lease $138,000
- 70 years lease, Market value $323,000
How to price HDB LHs?

- **Value of LH as % of Value of 99-year LH**
  - Rebased SLA LH Table
  - Annuity at 2% p.a.
  - Current LBS Rate

- **Remaining Lease Term (years)**
  - Years left % of 99-yr: 99 (100%), 90 (97%), 80 (95%), 75 (92%), 70 (90%), 65 (86%), 60 (83%), 40 (71%)
  - Sold tail-end Lease Years sold % of 99-yr: 69 (89%), 60 (83%), 50 (78%), 45 (75%), 40 (71%), 35 (67%), 30 (63%), 10 (31%)
  - LBS proceeds % of market value: 50%*, 49%*, 47%, 46%, 44%, 42%, 40%, 20%
  - Implied discount % p.a.: 1.94%, 1.77%, 1.70%, 1.64%, 1.61%, 1.57%, 1.53%, 1.50%*
Quarterly Withdrawals and Indices
1975Q1 to 2014Q1

Volatilities and correlations have risen which will jack up risk premiums.
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