# TRANSCRIPT OF BUDGET 2015 DEBATE ROUND-UP SPEECH BY DEPUTY PRIME MINISTER AND MINISTER FOR FINANCE, MR THARMAN SHANMUGARATNAM ON 5 MARCH 2015

## Contents

## A. INTRODUCTION

Mdm Speaker, let me first thank Members of the House for the thoughtful and valuable views that everyone has made over the course of the last two days. Members have spoken about each of the major thrusts in the Budget, both by providing perspectives of how we should go about things, underlining the values that should underpin our efforts, and making many specific suggestions on how we should implement our schemes – how we should learn as we go along and improve as we implement our schemes. So, it has been a very useful debate. Many of the specific issues, as usual, will be taken up during the Committee of Supply by the respective Ministers.

I will focus on three main issues today. First, quite briefly, I will respond to some of the perspectives provided during the debate on economic restructuring and, in particular, how we've got to help uplift our SMEs, so that the future – when we talk about the next frontier of our economy - is not just a future of technology and skills but a future that contains a vibrant SME sector as part of our society.

Secondly, I will talk about our approach towards building a fair and inclusive society.

Thirdly, very importantly, I will talk about our ability to sustain what we are doing – how do we sustain a fair and inclusive system, well beyond the current generation of Singaporeans?

## B. UPLIFTING OUR SMES

Let me start with restructuring. The issues that came up in the debate are not new. If you look at the debates of the last few years, you will find similar issues coming up, and they illustrate inherent tensions in restructuring our economy, inherent tensions in moving from one state of economy to a new state of economy, with a transition in between that is an inherently difficult transition.

Mr Inderjit Singh spoke about high business costs. Mr Yeo Guat Kwang, Mr Gan Thiam Poh, several Members highlighted this constant problem of business cost increases, at a time when revenues are not growing very rapidly. It is a real problem. The fundamental reason for business costs being high lies in demand and supply. That is the fundamental reason. We are a supply-constrained economy but demand by businesses for land, for labour, for all sorts of resources remains high. There is some positive in that; there is some positive in an environment where businesses are still trying to do business, trying to expand, need more workers, need more space, need more resources. It is not an economy in crisis.

Over the last five years, the number of new firms formed each year minus those that exited – net new firm formation – was 20,000 per year. Twenty thousand firms formed each year, minus those that exit. That is more than twice the preceding five years. During these five years - when we've sought to restructure our economy and were grappling with the shortages we face in manpower and the increasing constraints of land - we have seen a significant increase in the number of firms being formed across every sector.

Even in sectors like the food services sector, hotels, services sector, we have seen the same phenomenon. In the food and accommodation sector, the average number of new firms, minus those that exited, was nearly 1,000 per year, 50% higher than in the preceding five years.

But revenues, overall, are not growing more rapidly. They are not growing by 50% at all. We all know that. So, it is a question of revenue growth not being unusually buoyant but demand for resources is growing. And in that situation of demand and supply, business costs go up. That is a fundamental reason.

We therefore have two basic approaches that we can take, in attempting to move from one state of the economy to the next state. Two basic approaches that we can take in transition. One is to find a way to subsidise business costs across the board. Subsidise rental cost, subsidise labour cost, subsidise business cost across the board, because actually it is an across-the-board situation,  it is a fundamental constraint in resources pitched against increasing demand for resources. It is not about one firm or the other, or one sector against another. So, find a way in which the Government uses taxpayers' money to subsidise across the board to reduce business cost. That is one way.

The other way, as Mr Randolph Tan and a few others mentioned, is to withdraw support and accelerate the process of restructuring by letting market forces take charge, letting the market sort out more quickly winners from losers. That is another way. And it is not a crazy idea to accelerate restructuring by letting market forces take charge.

We have not chosen either approach. We have chosen an approach that is the middle path. As Mr Ong Teng Koon and others have pointed out, a phased tightening of our foreign worker policies, starting in 2010, year by year, always giving lead time for workers, and it has been quite a gradual phasing. If we look at it over the five years as a whole, it is a significant tightening, but it has been phased in. And very importantly, we have not just collected high foreign worker levies but we've flowed it back to companies. Flowed it back to companies that are taking some initiatives to upgrade, invest, improve processes so that they are prepared for higher productivity in the future.

As Assoc Prof Randolph Tan and others know, the process takes time. It takes time to reengineer a business, some time to switch to an entirely new business model and to train up our people. It takes time, but that is the approach we have taken. Gradual tightening so as to allow the market to work, but very strong support for firms that want to upgrade, and do something about it. And we have more than flowed back to the business sector the additional foreign worker levies that we collected.

The reason why we have taken this approach and not the harsher approach of simply allowing market forces to work in the face of a very tight labour market is because shock treatment does not just weed out the weakest players. It does not just weed out unviable businesses. It has a way of weeding out good businesses as well. It happens in every crisis, in every economy. When you go through a deep crisis, you lose many good businesses, including very promising entrepreneurs. So, we have taken this phased approach because we are not an economy in crisis. We can afford to take this phased approach.

And secondly, we have not wanted to impose a large cost on our workers. That is the second reason why we have taken this phased approach. Indeed, in the last few years, you have seen a very significant increase in labour force participation amongst older workers as well as people returning to the workforce, particularly women returning to the workforce. As Ms Foo Mee Har noted, I think quite thoughtfully, when workers who have been out of the workforce for some time or who have lower skills enter the workforce, it does not immediately help productivity. It takes time to train our people. And that is another reason why productivity growth has been hampered. Because we have as part of our social objectives, to try and make it as friendly as possible an economic environment for anyone who wants to join the workforce and contribute to the family. And I think that is the right balance that we have taken.

But we do have to ensure that our SME sector, five and 10 years from now, is a vibrant one. We will not be able to keep all our SMEs but we want to have a critical mass of SMEs in every sector of the economy. That's Singaporeans – they are part of our society, not just our economy – we want them to be there in the future Singapore economy. Innovative SMEs, expanding abroad, and even where in the domestic market, finding a new way of doing business or bringing in new ideas to the market. And it can be done. We have seen leaders already amongst our SMEs in very field, that are breaking the mould. It can be done.

We are sparing no resources in helping our SMEs. And although we have concerns about how many agencies we have, how many schemes we have, frankly, these are second order issues. It just depends on the entrepreneurs. If they are willing to take advantage of schemes, the schemes are there. They are more generous than in any other economy I know of, when you add up all our schemes – tax incentives, focused as well as broad-based like the PIC; grant schemes through SPRING, IDA, MDA; and the other schemes. When you add them all up together, it is a very generous set of supports. Please come and take advantage of it. And the Government will work as closely as possible with our trade associations, our chambers, to help more companies take advantage of our schemes. Entrepreneurs have to rise to the occasion.

Not small numbers - Mr Thomas Chua asked about the numbers – not small numbers have been taking advantage of these schemes. If you look at our Innovation and Capability Vouchers which help small companies to take incremental but significant steps, since 2012 we have had about 16,000 vouchers awarded, 90% of which going to very small businesses. If you look at IDA's iSPRINT scheme, since 2010 about 7,000 SMEs have been implementing new IT solutions. IDA has also been promoting sectoral platforms, and we have 46 sectoral platforms taking root and which will yield positive results in time to come I am sure.

SPRING's Capability Development Scheme, which is one step up, higher than the Innovation and Capability Vouchers – we have 2,000 projects supported in the past three years. And, again, it will take time for it to move the needle at a broader level. And as I announced in the Budget, we are now introducing a lower tier of support that will be granted much more easily, so that we multiply the 2,000 figure.

So, we are making some shifts in our approach towards focusing our innovation and breakthroughs whilst retaining a base level of support for all companies to get onto the basic level of productivity initiatives. We are shifting emphasis, and I am glad that everyone who spoke supported that shift. But very importantly, we have got to help our SMEs take advantage of SkillsFuture. This is an opportunity for our trade associations and chambers, or TACs, to strengthen themselves and work with their members. And the Government will work very closely with our TACs on this. SkillsFuture is a real opportunity. Industry by industry, sub-industry by sub-industry, we will work with the TACs and clusters of companies to develop Singaporeans to develop talent. Develop courses that really suit the needs of the industry – short courses, modular courses, helping workers take advantage of new technologies – and develop training options that are meaningful to the individuals, meaningful to Singapore. And a very important part of this initiative of helping SMEs will be to develop a pool of mentors who work with specific industries and firms to help them. Because as we noted, SMEs on their own will find it difficult to train up their people and take full advantage of SkillsFuture, so that TACs and a pool of mentors will help our SMEs.

There are already examples of how this can be done. The furniture industry is one of them. Singapore Furniture Industry Council has collaborated with NTUC, e2i and WDA to launch the Creative Craftsmen Entrepreneurship Programme, combining on-the-job training with training at the Institute to develop a local pool of skilled local craftsmen. Good example. It is when some TACs take the lead that I think others will begin to move, and they will know that you provide very strong support as Government for the TACs to take the initiative.

SkillsFuture was supported by everyone who spoke. I am glad that the Workers' Party too joined in support of this whole initiative. There were useful suggestions on how we should go about it and, in particular, I would like to highlight the suggestions that several Members of Parliament made – Ms Jessica Tan, Ms Irene Ng, Mr Patrick Tay, Dr Intan, Mr David Ong, Mr Ang Hin Kee, Er Dr Lee Bee Wah, and I am sure I missed out some other names. In particular the suggestion that we should not just develop a landscape of offerings, but we should actually work with groups of Singaporeans to develop offerings that meet their needs. So, it is not just about the landscape of offerings on the one side and firms on the other. You've got to actually help groups of Singaporeans to meet their needs - mid-career PMEs, our homemakers, our low-income workers, Singaporeans aspiring for leadership positions. Singaporeans who really need, in some cases, hand-holding; in some cases, some customisation within this landscape. And I think that is a very exciting opportunity - to develop intermediaries and mentors, use our trade associations, and have individuals who are also passionate about this, come forward and work with the groups of people, including our homemakers, as was emphasised, who do want to return to work for some period of time – part-time or full-time.

We will place great emphasis on developing quality offerings. This has been emphasised by everyone, in particular by Ms Denise Phua and Ms Foo Mee Har. We studied the experience in some other countries. The United Kingdom did experiment with individual learning accounts more than a decade ago. They faced problems because of a lack of quality assurance, and they did not place enough emphasis on developing the supply side, developing the training landscape that was relevant to the needs of employers and individuals. It is no point just creating an account where you put money into people's account. You need to ensure quality. You need to assure people of quality, and you need to ensure relevance to jobs and to individuals. And that is what our primary focus will be about.

So, SkillsFuture, frankly, will itself be a learning journey. We are embarking on a major new phase in developing our people. It involves some experimentation. It involves learning as we go along, but let us do it with the right spirit. As Mr Lim Swee Say says that everyone plays a part in this. You just need the mindset of embracing the future. We all have to embrace the future. And I think this will in time to come prove to be a transformative force in our society.

## C. BUILDING A FAIR AND INCLUSIVE SOCIETY

Let me now move on to a second major theme, which is that of building a fair and inclusive society. We have embarked on major moves to build a more inclusive society and mitigate inequalities. It is not a recent shift; it is not a sudden shift. Started in a major way in 2007, and since then step by step, year by year, we made enhancements in education, in housing, in healthcare and in retirement. A deliberate tilt to support our lower and middle-income groups, step by step. And if you look at each of our Budgets, if you look at the philosophy articulated in National Day Rally speeches by the Prime Minister, this is a shift that we have been working at progressively year by year over the last seven to eight years.

What it boils down to is that we are providing more active support for Singaporeans at each stage of life: when you are young, when you are in your working years, as you raise your family, and when we all retire and get older. Very importantly, we are building a social compact that is not only about stronger collective responsibility, but which seeks to encourage personal and family responsibility. I will come back to this later. That is at the heart of it. We are building a social compact that is not just about stronger collective responsibility, but seeks to encourage personal and family responsibility.

Let me describe the major steps we are taking and how they add up to this new social compact. First, we are intervening earlier in life: investing more in our young so as to preserve and encourage social mobility - because that has to be part of our Singapore identity.

It is a challenge all over the world. Social mobility is the defining challenge in every advanced country today. The slowdown and the low level of social mobility, almost irrespective of which of these countries you look at, including the Scandinavian countries.

We are fortunate that Singapore has so far done relatively well. It is still a more fluid society than most. I can show Members a slide. What this slide looks at is people who start off with low-income family backgrounds, and we look at what happens to them once they have finished education, entered work, and are well into their working lives. Where did they end up?

If everything was equal – in other words, if we all had equal abilities and if backgrounds and everything associated with our backgrounds played no role in what happens in life – then, the chance of you ending up in the bottom 20%, the next 20%, the middle 20%, or the top 20%, will be equal. Wherever you start, 20% will end up in each quintile of society. Everything equal. But everything is not equal: there is the 'lottery of birth', and in every society your background is associated not just with your abilities, but the culture around your background.

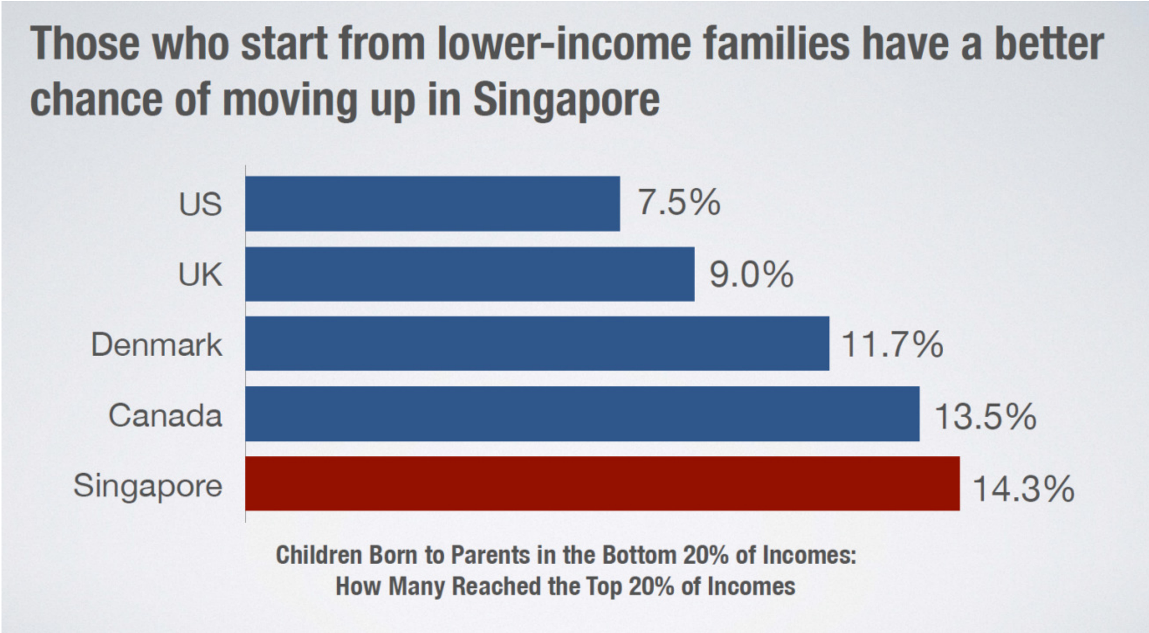
What has been seen in most advanced societies, for reasons that are not fully understood, is that in the last 20 years especially, people who are better off are not just giving more resources to their kids, they are also putting a lot more effort and time with their kids. Everyone else in society is trying to do as best for their kids as they have always done, but for some reason, those at the top are putting even more effort into helping their kids succeed – starting very early and through life.

Those are the natural workings of society. We cannot help those natural workings of society; they're true everywhere in the world. But we want to give the best chance for someone who starts off with a low-income background or middle-income background to move up, and make sure this remains a fluid society.

Now, we will look at the data. If you look at the US, for those who start off from parents who were within the bottom 20%, only 7.5% of them – or about one in 14 – make it into the top 20%. If everything is equal, 20% of them will be in the top 20%.But in fact only 7.5% make it to the top 20% of their cohort. This is now widely acknowledged in the US; they used to think of themselves as a place with considerably more mobility than Europe, but actually, it has not been the case for decades. The UK is not very different; very little mobility. Poverty today is poverty tomorrow; it is entrenched.

The Scandinavian economies are somewhat better. About 10%-12% of those who start off from parents in the lower income group end up in the top quintile, the top 20%. Canada is doing much better than the US. They are located side by side, but Canada has got a different system, less entrenched social barriers and they are doing somewhat better.

In Singapore, for those who start off with parents in the bottom 20%, 14% of them end up in the top 20% of their peers. This is a relatively young group that I am showing – those in their mid-20s to early 30s. If I were to show you the older generation, we know the story – even more fluid. But even for this younger group, 14% end up in the top 20%. A relatively fluid society.




Source: Various estimates by Chetty, Hendren, Kiline & Saez; Blanden & Machin; Boserup, Kopczuk & Kreiner; Corak & Heisz; Ministry of Finance [1]

We know it will get more difficult. With each decade, it gets more difficult as society gets more settled. We will not evade the problems faced in the advanced societies; the natural workings of societies exist. So, we have to work harder at it, and that means, as Dr Lim Wee Kiak had emphasised, starting earlier. Finding every way to help every kid who has a weak start to gain confidence and to get a strong start.

---

[1] Sources: Chetty, Hendren, Kiline & Saez. "Where is the land of opportunity? The geography of intergenerational mobility in the United States". Quarterly Journal of Economics, 129(4), 2014.
Blanden & Machin. "Up and down the generational income ladder in Britain: Past changes and future prospects". National Institute Economic Review, 205 (1), 2008.
Boserup, Kopczuk & Kreiner. "Stability and persistence of intergenerational wealth formation: Evidence from Danish wealth records of three generations". Working Paper, 2014.
Corak & Heisz. "The intergenerational earnings and income mobility of Canadian men: Evidence from longitudinal income tax data". Labour and Demography, Econ WPA, 1998.
MOF estimates using the latest administrative data.
Note: The figures are generally based on the incomes of young adults (late twenties to early thirties). For Singapore, they refer to the cohorts who reached 30 years of age between 2008 and 2012 (i.e. who were born between 1978 and 1982). While there are some differences in the details of the various studies, they are regarded by scholars as being broadly comparable (*see* Chetty, Raj. 2015. "Improving Equality of Opportunity in America: New Evidence and Policy Lessons". The Boston Foundation, retrieved from http://www.tbf.org/videos/2015/february/~/media/TBFOrg/Files/Forum%20presentations/Chetty%20Opportunity%20and%20Education%20slides.pdf).

We are investing very heavily in pre-school education for this reason, and we are doing a lot in our Primary school years. Pre-school education - it's well known. But let me remind Members that when we add up what we are doing for students with a weak start in Primary school, we are now spending 2.5 times more in real terms, compared to just five years ago. That is investment in teachers, programmes to help them develop stronger numeracy and literacy skills, starting in Primary 1 and 2, and working our way up.

A very significant initiative. We have to intervene earlier, intervene more strongly but find the best and most creative ways to help children gain confidence and overcome early deficits.

We are also doing more for special needs students. Our spending on students in our Special Education (SPED) schools has increased over the last five years by 50%. It was already much higher than for students in a regular school, and we have increased it further by 50% in real terms. We have been strengthening the SPED curriculum, helping to train up the teachers, MOE is funding professional development of the teachers in our SPED schools. We are intervening earlier and trying to intervene better.

Secondly, we have enhanced affordability across the system, from pre-school all the way up to the tertiary level. We know about the kindergarten and childcare subsidies. For low-income families, they pay as little as $3 a month for childcare, and $1 a month for kindergarten. Across the system, we have also enhanced subsidies for the middle-income group. I spoke about this in the Budget. This is especially so in tertiary education. A significant shift that began a few years ago was to enhance bursaries and other forms of support for the middle-income group in tertiary education.

Thirdly, it is about the pathways. By creating more diverse pathways to cater to every talent and inclination, and even different learning styles, we are also trying to promote social mobility. People have different strengths, different interests and by providing more diverse pathways, we maximise our chances of social mobility. That has been true in the school system but especially true at the tertiary level. The strengthening of the applied pathway is a critical route to social mobility.

That is education – a major set of initiatives.

The second major initiative that we have taken is to promote home ownership, particularly, by helping the lower and middle-income groups. I am not going into details because Members know the details.

Housing prices are not like what they were 40 or 50 years ago. That is indeed why the older generation today is sitting on substantial housing assets and equity in their homes. Prices are not like what they were even 30 years ago. What is critical is to help young couples today, once they are ready to set up a family, to own a home. On that front, we have spared no efforts; first, in trying to tame the cycle, which we are achieving by boosting supply of HDB flats, and through our additional buyer's and seller's stamp duties. All the measures we have taken to tame the cycle are working and are working better than in Hong Kong or some other places.

More importantly, there have also been enhancements to Housing Grants – the HDB and BTO grants. What we are able to achieve for young couples in Singapore today is unmatched by any other leading city in Asia. We know about Hong Kong, extremely high housing prices. Likewise, in Shanghai, Beijing, Seoul, Taipei, even Sydney and Melbourne - if you look at the income of the average young couple, compared to the price of a home that they want to move into, homes are more within reach of our young than they are in any other leading Asian city. That is homeownership.

Thirdly, what we are doing for those in working age. I am listing this in a little bit of detail but it is worth reminding ourselves as to how our social programmes add up and how we have been making deliberate moves over the last seven to eight years.

What we are doing for people in the working age. SkillsFuture is a major investment and I have spoken about it. At its heart, it is not an economic programme. At its heart, it is about helping every individual push their potential through life. Not just what you do in school. Keep discovering and pushing your potential. Everyone has a strength, although we may not figure it out during our school years. Everyone has a strength and it is never too late in life to identify your strengths, identify your interest, and push your potential. It is never too late to learn. SkillsFuture is itself a major force of social mobility. It is not just an economic strategy.

Fourthly, we have also taken significant moves to temper inequality. Workfare was a major step, which started in 2006 as a temporary scheme, we made it permanent in 2007, and we enhanced it in 2010 and 2013. We will continue to review it in future so that even as wages go up over time, we would still want to use Workfare to redistribute and temper inequality. Workfare is not about alleviating absolute poverty; it is about mitigating inequality even as incomes rise. We have to mitigate inequality.

For the lowest paid workers, the Progressive Wage Model is now working its way: first, the cleaning industry, and we are moving on to the security industry. We focus on industries where outsourcing is prevalent and which are prone to cheap-sourcing as a result of outsourcing practices. That is what we're focused on.

We have also introduced a permanent GST Voucher scheme. Again, it is a redistributive device: a permanent GST Voucher scheme to help lower income households. So, that is the fourth set of initiatives – tempering the disparities in life.

Fifth, we are giving greater assurance in old age, so that our elderly can make the most of life. First, at work, we introduced a Special Employment Credit – quite a unique scheme by international standards – to help our older workers keep their jobs or find new jobs, and to stay employed and continue to contribute and take pride in contributing, which is what Singaporeans want to do.

Beyond work, we have made very significant shifts in healthcare, first by enhancing subsidies not just for the lower income group but the middle-income group. Last year, through the Pioneer Generation Package; this year, through MediShield Life, which would be heavily subsidised for the lower and middle-income group; and by the significant expansion of capacity which Members are familiar with – all around the island, primary care, acute care, step-down care; very significant expansion of capacity.

Next, we will be rolling out the Silver Support Scheme to provide a further supplement to personal savings and family support. Silver Support, like Workfare, will be a way of tempering inequalities through life.

Finally, we are doing more to encourage the community to take responsibility and to step in. In Budget 2011, we had a major initiative – the Community Silver

Trust Scheme. We put aside $1 billion, for dollar-for-dollar matching for voluntary contributions to VWOs providing for intermediate and long-term care, which includes helping the disabled. It was a major scheme, and I should add in relation to Dr Teo Ho Pin's question that the Community Silver Trust provides matching grants for the National Kidney Foundation (NKF) and for VWOs providing kidney dialysis.

More recently, we have launched the Care and Share SG50 movement. It was rolled out in 2013 and we have extended it this year. Again, it provides dollar-for-dollar matching for a whole range, a very broad spectrum, of social service sector VWOs.

We have enhanced our tax incentives for donations, which MPs have welcomed. Mr Seah Kian Peng spoke about this. We introduced a 250% tax deduction in 2009 and had good results, which is why we have extended it for another three years, quite apart from this year having a 300% deduction.

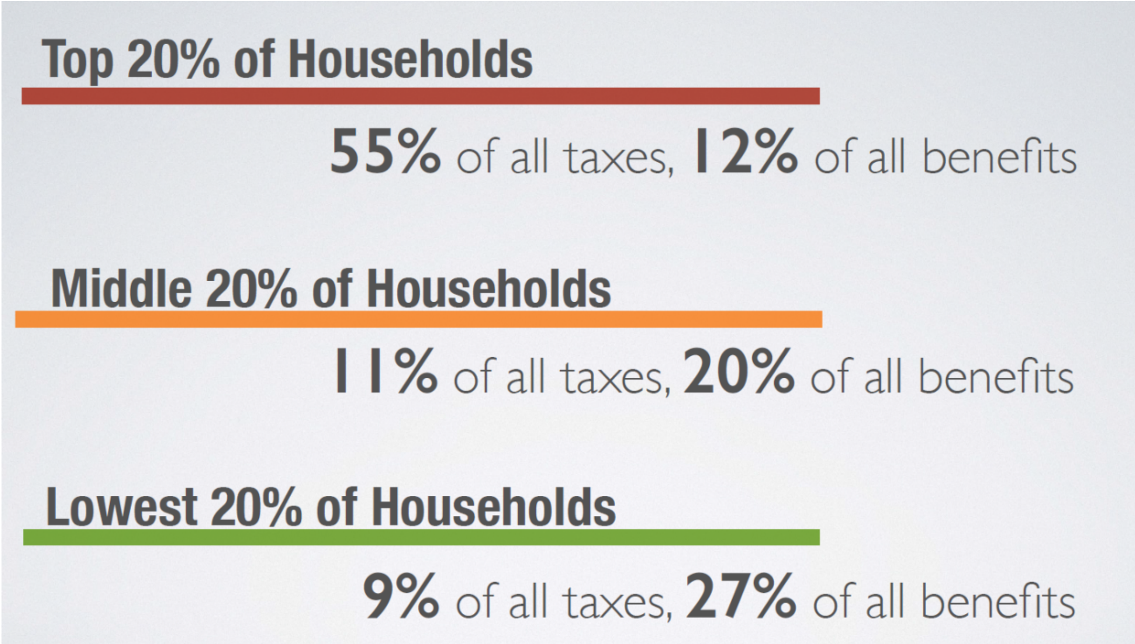
Mr Seah, in fact, asked about the revenue implications of this tax deduction. This tax deduction, the 250% tax deduction, has meant a tax loss to the Government of about $120 million per year from 2010 to 2014. But it led to a gain for the charitable sector of about $870 million a year. Government lost $120 million but it led to a gain for the charity sector over $870 million per year.

## Progressive Tax and Benefits System

If we take it all together, this has been a set of major moves - at every stage of life, strengthening our policies, providing greater assurance and opportunities. In education, at work, in healthcare, in retirement.

Let me show how it all adds up in our system. When you take all the taxes that people pay and all the benefits that they receive through our different schemes, how does it add up? It is basically a progressive system and one that has become more progressive. Where the higher income households contribute the bulk of the taxes and the lower income households receive the bulk of the benefits. It is also one where the middle-income receives more benefits than it used to.

Let me show that very briefly with the slide. We take the top 20% of households: they pay 55% of all taxes, when you add up income tax, property tax, GST, car taxes, maid levies, and so on; they pay 55% of all taxes, and they receive 12% of the benefits. If you look at the middle 20% of households, they pay 11% of all taxes, and they receive 20% of all benefits. When I say, “middle 20%”, I mean those between the 41st to 60th percentile. They pay 11% of all taxes and they receive 20% of all benefits. And the lowest 20% of households pay 9% of all taxes, mainly through the GST. Everyone contributes, and the low-income group contributes through the GST and a few indirect taxes, but mainly the GST. They pay 9% of all taxes, but they receive 27% of all benefits. It is a progressive system.




Source: MOF estimates.[2]

Then I should add that we have also shifted significantly in the weight being placed on structural transfers, permanent schemes, as distinct from temporary schemes that we are able to afford when the Budget is a good shape. About ninety percent of our transfers in recent years comprised permanent schemes.[3]

The system is not just about redistributing from the rich to the poor. It is also about the middle-income group, very importantly. The middle-income group in Singapore are net beneficiaries of our system. There has been a very significant increase in the amount of benefits that the middle-income group has got over the last 10 years. For every dollar of tax paid by the middle-income group, they now get $1.70 back. In fact, a bit more than $1.70 back. For every dollar of tax paid, and you add up all their taxes - income tax, what those who happen to own a car would pay, add all

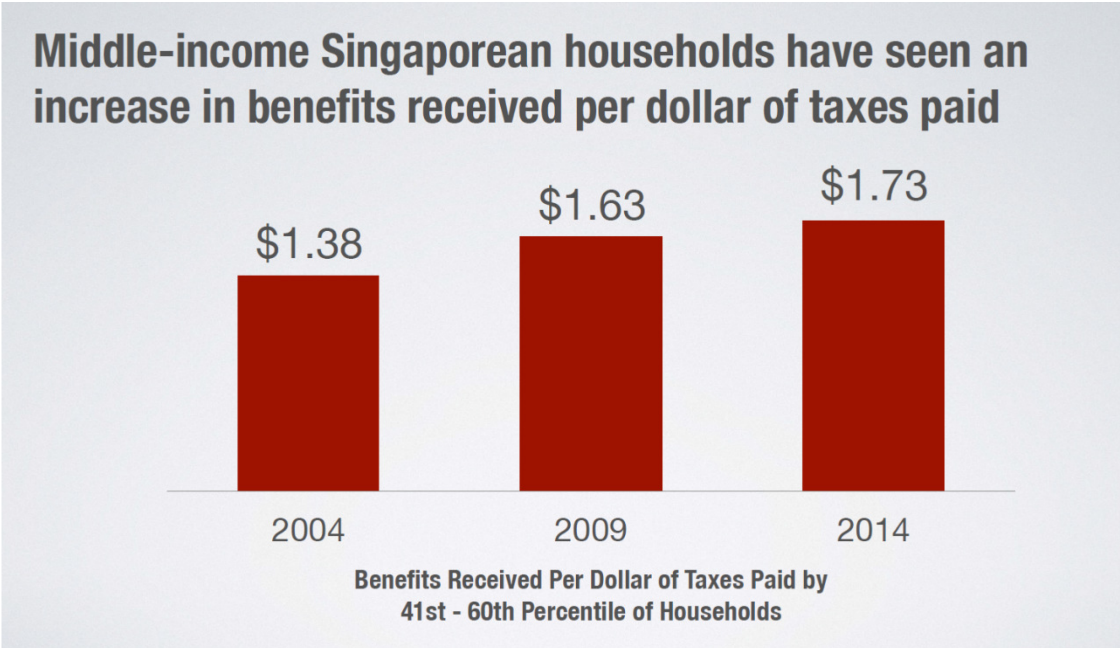
---

[2] Notes:

1. Data for 2014. Refers to Singaporean households ranked by income from work (including employer CPF contributions) per member.
2. Benefits and taxes are computed on a per member basis to account for household size.

[3] Based on average of the share of structural transfers in each year between 2009 – 2014

the taxes, property tax, and so on - for every dollar of tax they pay, they get $1.70 back in benefits. This is real data, that refers to the middle 20% in our society, Singaporeans. It has gone up significantly over the last 10 years.




Source: MOF estimates. [4]

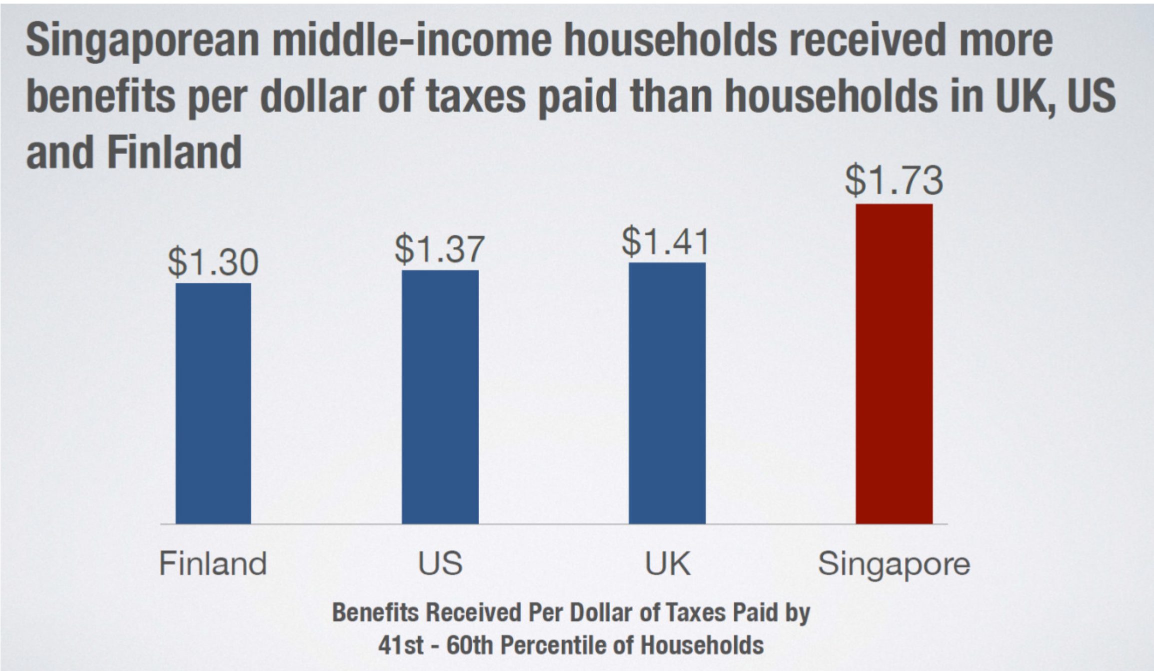
It is a fair system. The benefits that our middle-income group get are not like what you see in the Scandinavian countries, or the UK, or many other advanced countries. Some of them have 'free' healthcare, 'free' tertiary education, 'free' many things. But they are paying for it. It is not free. It is never free.

In most of these societies, with Scandinavian countries being the classic example, their tax systems are not typically progressive. They rely mainly on the VAT and high income tax for everyone, to be able to flow back the benefits. Everyone is paying for the free benefits that they are getting. When you add it all up, the benefits they get for the dollar of tax the middle-income group pays is less than ours.

[4] Note: Households are ranked by income from work (including employer CPF contributions) per member.

I will show Members another chart which compares us to some other countries. The US is the lowest tax country amongst the advanced countries, generally. Their effective income tax for the persons in the middle income group is about 17%[5], relatively low compared to many other advanced countries. In Singapore, it is close to zero for those in the middle. In the US, it is about 17% - lower than the Scandinavian countries.

In the US, when you look at their sales taxes – they don't have a national GST, but they have sales taxes at the local level – they're about 4% to 11%. The US has somewhat lower taxes at the most. In the US, you get about $1.30 back for every dollar of tax you pay. Finland is about $1.30 as well. UK, slightly more. And in Singapore, it is about $1.70.




Source: US Congressional Budget Office, Institute of Taxation and Economic Policy (ITEP), UK Office of National Statistics, Statistics Finland, and Department of Statistics Singapore[6]

[5] Effective Personal Income Tax rates for the average worker are OECD estimates for 2013 (Source: OECD Taxing Wages 2012-2013).
[6] Notes:

We are a low tax regime. We try to keep the burden of taxes of the middle-income group, in particular, low. We target our benefits in healthcare and education, in every area, to support the low-income group and the middle-income group. We target it. In general, everyone co-pays for what we are getting, so that we know that nothing is for free. We co-pay, we keep taxes low, and the net benefits are ones which the middle-income group gains from. So that's worth highlighting.

## A Compact of Personal and Collective Responsibility

Let me go on to explain what this adds up to in terms of our thinking, our values and our philosophy. We have tilted our system deliberately to help our lower and middle-income groups. In the last five years, there has been a significant tilt. The Government is playing a more active role in redistribution.

But the key to building a strong society is not just in how much we are doing to redistribute. It is in how we strengthen the values that undergird and sustain a fair and inclusive society. It is not how much we are doing, but how we do it, and whether what we are doing helps to strengthen the values and the habits that sustain a fair and inclusive society.

At the heart of it all, we are seeking to build a stronger social compact for the

---

1. Singapore: Data for 2014. Taxes include income tax, GST, property-related taxes, vehicle-related taxes, foreign domestic worker levies and other indirect taxes. Benefits include schemes related to housing, education, health, employment, marriage and parenthood, social support and special transfers.
2. UK: Data for 2013. Taxes include direct taxes (income tax, National Insurance, Council Tax, Northern Ireland rates) and indirect taxes (e.g. VAT, custom duties, tobacco duties). Benefits include cash benefits (e.g. state pension, employment and support allowance) and benefits-in-kind.
3. US: Data for 2011. Taxes include federal taxes (e.g. individual income taxes, payroll taxes) and estimated state and local taxes *(source: ITEP)*. Benefits include cash payments and in-kind benefits from federal, state and local governments.
4. Finland: Data for 2013. Taxes include direct taxes, social security contributions, capital income taxes, municipal tax and estimated VAT *(source: Statistics Finland)*. Other local indirect taxes are <u>not</u> included. Benefits include schemes related to income security, health, old age, unemployment, families and children and housing.

future, a compact where personal and collective responsibility go hand-in-hand. That is at the heart of what we are doing. We are seeking to build a stronger social compact, where personal and collective responsibility reinforce each other and go hand-in-hand.

Our approach is quite different from the cradle-to-grave welfarism that was developed over 50 or 60 years in many of the advanced countries. Our approach is about empowering people and aspirations, and rewarding responsibility throughout life. That is our approach. It is quite different from cradle-to-grave welfarism. It is about encouraging and empowering people to learn at every age, to work, to take second or third chances, and to make meaningful contributions through our careers, whichever the job; helping people to own a home and whether as a breadwinner or homemakers, to raise the next generation, and helping everyone to make the most of life even in our senior years.

It is also about developing a broader culture of responsibility in our society. It is not just about everyone doing their part, rich or poor, but also about being able to count on each other. And those two things go together. We are able to count on each other, now and in the future, only if everyone plays their part, if everyone plays their responsible role.

Our whole approach, therefore, has been to avoid a zero sum game between personal and collective responsibility. Avoid a zero sum game, and get a compact where personal and collective responsibility reinforce each other.

We have had a thoughtful debate on this issue. As Ms Chia Yong Yong said, if we lean too much to the left, we will not have much left. As Mr Karthikeyan said, if we lean too much to the right too, then we may not be doing the right thing. There is truth in both views.

Mr Seah Kian Peng noted the polarisation of views in the United States, the polarisation between 'red' and 'blue' views. Very serious problems, because they are looking at problems through red lens or blue lens alone. We have to avoid looking at problems through the lenses of the left or the right alone because there are truths on both the left and right. These are the truths that we learned from 50 years of experience in social policies all over the world, particularly in more mature societies.

We cannot solve problems if we leave it entirely to the market or the natural workings of society. It would lead to widened income gaps that reflect not just people's different abilities and efforts, but also the advantages and disadvantages in the backgrounds they start with. It will sap the morale of our society if we just leave it to the market to sort things out.

Neither can we think that social policy interventions alone can create a fair and cohesive society, without a culture of personal responsibility in the family - in education, at work and in saving for our future. It will not create a fair and inclusive society, and it will sap the vim and energy of our society at every level.

We need some humility. In every society, we need some humility as to what works in social policy. Take truths from both the left and the right, but we must have some humility. Because one of the lessons we've learned from the policy interventions in the more mature societies is that lasting improvements in society are not easy to achieve. It is certainly not just a matter of putting in more Government resources. Our real task is to find ways to help people, not just by providing them with more resources, but helping them to rebuild family lives, making sure they have got empathetic teachers, mentors, community volunteers, and helping them to build circles of friends and peers around them, people with a positive and aspiring outlook on life.

We've made our system more progressive, as part of our efforts to build a fair and inclusive society, but we should never forget that it rests on this compact of personal and collective responsibility. As Ms Jessica Tan put it, we must preserve our Singapore ethic of work, effort and responsibility, and collective responsibility for the community. I think that sums it up.

## D. A FAIR SYSTEM: NOT JUST FOR TODAY BUT FOR THE NEXT GENERATION

### Challenges of Sustaining a Fair System

Let me now talk about a critical issue, which is sustainability. Fairness is not just about what we do today - how we distribute taxes and benefits, who takes what share today. It is not just about the current generation. We must build a fair and inclusive society for today's generation, our children's generation and generations in the future. That is the difficult task.

There are countries more progressive than us. There are countries that have achieved a very high degree of transfers and redistribution. It is worth watching them and how they changed over time. How their values changed and, also, whether they had been able to sustain what they are doing.

The whole experience of the UK, Europe and, to some extent, the United States, has been one of building up unsustainable social welfare systems. The UK is a very good example. With each electoral term, each party and each government coming into power has increased social spending, and increased spending particularly, on the elderly. It is vote buying. But the system is now unsustainable, and they are paying the price.

Unfortunately, the ones who are paying the price are the young and the lower-income group. Spending in the UK in the last few years has been cut for children. Between 2009 and 2012 – I do not have the more recent data, but it has been intensified austerity – real spending per child in early education and childcare fell by 25%. Spending was also cut on programmes to subsidise early education and childcare for disadvantaged children – a significant cut, more than 30% cut.

It was not as if it was to help poor retirees, because the whole weakness of the system was in extending benefits to everyone, including the upper middle-income group and the rich.

The rich gets generous pensions, they get winter fuel allowances, free transport. Even the Conservative government today is committed to preserving those benefits for the elderly rich and the upper middle-income groups at the expense of the young and the poor. That is how inequitable it is.

We have got to sustain a fair and inclusive society for generations; not one election at a time.

The US faces the same situation. It has lower taxes than in many European countries but it has the same basic flaw of looking at things short-term. What has happened in the US now – and the Obama Administration has recognised this – is that they are severely constrained in investing in their future.

The reason is because first, the interest payments on the debts they have accumulated are going to grow as a share of their budget. Interest payments on debt are going to increase by almost 2% of GDP over the next 10 years. Secondly, the entitlements they have promised are also growing because people are getting older. If you add those two things together – the interest payments on debts and their entitlements which are a fixed item of their budget – it results in less being left over for the rest of spending. They have to cut back on spending on the future, on fostering opportunities. They have to cut back. And if we look at it at the state level, California and other states, a very significant cutback on education spending. Inequitable.

This is true for most of the advanced countries. An OECD report stated forthrightly, “governments will have to make tough choices of about how fair it is to ask current workers to pay taxes to support pension payments of a level that they themselves won’t enjoy.” Current workers have to make higher contributions for pension payments that they are not going to enjoy, but which current pensioners will enjoy, including pensioners who are not poor.

We have to avoid these basic political flaws. We have to avoid them. I am glad Members have raised caution and have asked the right questions which we have to keep asking as we move along. We have to make sure that, as Mr Liang Eng Hwa says, we never cross the red line of failing to balance our Budget within each term of Government. Mr Hri Kumar also spoke on this matter. Ensure sustainability, ensure we never run down on reserves.

This is why we have written rules into our Constitution. We have gone further than most other countries – by writing the rules into the Constitution to prevent the Government from running a cumulative deficit within its term of Government. Except in crises, when we have to go to the President to get his permission to draw on reserves. We have written it into the Constitution, so that it’s enshrined in our political culture, no matter who is in government.

Mr Hri Kumar and Mr Arthur Fong also voiced concerns about the Budget deficits that we are running in recent years. Let me clarify that the Government Budget has been in a healthy position. For this year, as I have explained, the deficit is almost entirely due to funds being set aside for future investments. It is not a deficit due to spending exceeding revenues. It is a deficit because we are setting aside funds that we have earned in this term of Government, for the future. And until this year, during this term of Government, we have not recorded a deficit in any year before setting aside funds for the future. For example, the small deficit we ran last year would have been a significant surplus, had we not set aside money for the Pioneer Generation Package.

Essentially, what we have been doing is prudent budgeting. We have had a temporary surplus in revenues, particularly because of the revenue boost from the property cycle. And rather than spend those revenues in the current term, which is what some other governments do when they get a bonanza in revenues, they spend it, we have set it aside. And that should remain the way we go about fiscal planning in the future. When we have a temporary boost of revenues, and we know the cyclical reasons why our revenues exceeds our spending, set it aside for the future; do not spend all of it immediately. That way, we avoid "feast and famine" in our spending.

Let me now go on to two major issues that arose in the debate that relate to sustainability. The first has to do with the Net Investment Returns framework and the use of reserves. The second is the CPF system as well as Silver Support.

## Sustainable Use of Reserves

Several Members raised questions about the sustainability of our system of drawing income from reserves, and about making sure that we are not disadvantaging future generations. The Net Investment Returns (NIR) framework in fact underlines our commitment to preserve the value of our reserves, and to allow it to grow with the economy over the long term. It allows the Government to tap part of the investment returns for current spending, and it strikes a fair balance between present needs and interest of future generations.

We had put a lot of thought into it when we moved the Constitutional amendment in 2008. It's about striking a fair balance between present needs and the interest of future generations.

It ensures that we spend from our reserves in a disciplined and sustainable way. First, by spending at most 50% of expected long-term returns, which means at least 50% are kept in reserves. Second, by spending based on real returns, not nominal returns, so that we preserve the international purchasing power of our reserves. Otherwise, if we have high inflation globally, and you earn higher nominal investment returns, and you spend more on that basis, what you are doing is reducing the real value of your reserves for the future.

We have also provided stability in the NIR, by spending based on expected long-term returns, not actual returns. This recognises the actual returns will be more volatile than the long-term expected returns. And we smooth our asset base. This is an important point. There are two ways in which we achieve this stability over time: first, we are spending based on expected returns, rather than actual returns which can be volatile; and secondly, we also smooth our asset base.

For instance, there is a boom in asset markets, a boom in asset prices and the value of our reserves go up, the value of the asset base goes up. We don't spend on the basis of that boom in asset prices. We smooth the asset base, so as to discount the latest changes in prices. If there is a boom in asset prices, it does not mean that you spend the same increase in NIR, because you do a smoothing of the asset base. These are rules we have written in, that help ensure there is a fair balance between current and future generations.

There have also been some questions, understandably, in the media about whether bringing Temasek into the NIR framework will impact Temasek's investment strategy. The same question can be asked about the GIC and the MAS. Let me assure Members that this will not be the case for Temasek, just as it is not the case for the GIC and the MAS.

The NIR framework provides a formula to work out how much the Government can spend from reserves. That is what the NIR framework is about. It is not based on actual returns, but on the expected long-term real rate that we expect our investment entities to earn within the framework. It is about the expected real rate of return from each of our investment entities, and not based on actual returns. It is not a dividend policy in disguise that determines how much cash Temasek has to pay the Government each year. If anything, by focusing on expected long-term returns, we ensure that in no time in the future does the Government put pressure on our investment entities to sell assets, realise capital gains, and pay more dividends. It keeps their investment strategies independent of the spending rule of Government.

The natural question that arises, of course, is that if the Government is spending on the basis of expected returns which will not year-by-year be matched by actual returns, where then does the Government obtain the funds, the cash flow, for the NIR to go into the Budget? This is a liquidity management issue, and not to do with the spending rule, and not to do with the investment strategies of the investment entities. It is a liquidity management issue which I had addressed in Parliament when we first introduced the NIR framework. I will not go into the details again, but we have a variety of sources of liquidity and cash flows that will enable us to manage the Government's liquidity needs independent of the investment strategies of the three entities – Temasek, GIC and MAS. Let me assure Members that what we are doing does not change their investment strategies in the least.

## Progressive and Sustainable CPF and Silver Support

I go on now to the second important issue related to sustainability, which is CPF system and Silver Support.

Let me first explain – and this is quite important – how the CPF system is different from the main systems that we see abroad, the commonly known systems abroad. In particular, how we have tried to avoid the major disadvantages of these other systems, whilst being able to take some of the advantages. It is a very important feature of the CPF system. We are actually a system that is quite different from the main systems that you see abroad.

There are basically two main types of retirement saving systems. The first are collective pension schemes, where everyone pays taxes or regular contributions into a common pool while working, in return for a promised regular payout in retirement. They are usually state-run, some are actually employer-run, but they are basically collective pension schemes. Everyone pays into the common pool, and they are assured of a certain payout in retirement. That is one type of system.

The second type of system is individual retirement accounts, not collective. Individual retirement accounts where an individual puts his savings into an individual retirement plan, and he or she draws on their own account in retirement. People have to choose how their monies are invested and they take the investment risk.

In the US, they call this the 401(k) schemes. In Hong Kong the Mandatory Provident Fund (MPF) scheme is designed that way. It is purely individual retirement accounts, you choose your investments, and you take your investment risk. The Australian Superannuation system is another example.

Within the industry, the first type scheme that I have spoke about, the collective pension schemes are often known as defined benefit schemes because the benefits are determined in advance, and they are not linked strictly to your contribution. And the second type, the individual retirement accounts are called defined contribution schemes, because the benefits are not known, they depend on investment returns, but your contributions are what are known in advance. Those are the two schemes. Both have their pluses and minuses.

The collective pension schemes promise individuals a regular payout throughout retirement without them bearing investment risk. They also involve redistribution, which is done in two ways. Typically, there is a minimum level of benefit which helps the low-income group. That involves a transfer within the state pension scheme – a transfer from the higher and middle-income groups to the lower income group within the pension scheme.

Secondly, there is a transfer across generations, in particular from the younger working population to the current elderly. These are pay-as-you-go schemes, where the benefits of today's elderly are funded by the contributions of today's working population.

There are some advantages to the collective pension schemes because they provide some certainty to the retiree, and they involve some necessary redistribution to the lower income group. But there are major disadvantages in the way these schemes have been run, because the benefits have been made more generous over time, and they can no longer be afforded by the current working population, as I spoke about earlier. Countries are making major reforms, one after another, to cut back on the future benefits of today's working populations because of unsustainable benefits that have been promised previously. People who start work today have to contribute more today, but will receive less benefits compared to current retirees.

As a result of this unsustainability, there is a shift in most countries away from the emphasis of collective pension schemes towards individual retirement accounts. But the individual retirement accounts still remain quite small compared to the collective pension schemes. They are a small layer on top of what is really a system of collective pooling of contributions - mainly through the state, and sometimes through the employer.

The individual retirement accounts too have their pluses and minuses. The pluses are that they are financially sustainable because what payout you get depends on what you put in. It does not depend on inter-generational transfers.

The big disadvantage is that investment risk is borne by the individual and this risk can be substantial. We have learnt, especially over the last 10 years, that the risk is substantial on the individual. I explained this in Parliament last year how, in general, the investment returns in these individual retirement accounts in the UK and Europe, have substantially under-performed the market averages. Firstly, because they do not time their investment well, they make wrong investment decisions or they are poorly advised. And, secondly, because of the timing of their retirement, because of the luck of when they retire. If you retire during a crisis, you just have much lower retirement payouts for the rest of your life, compared to someone who retired during a boom.

The CPF is neither of these two approaches – collective pension scheme or individual retirement account. It is both individual and collective. It is first and foremost built on individual savings and responsibility. First and foremost. But there is a strong element of collective responsibility built into the CPF scheme. The Government provides support through the Budget to lower income members and provides assurance to all. And through CPF LIFE, we are pooling risks to support one another in the face of life's uncertainties throughout retirement. There is a collective responsibility that is built into the CPF system, both through the Government and through members pooling risks in retirement through CPF LIFE.

The whole purpose of the CPF is to avoid the major disadvantages seen by the two schemes that I spoke about, whilst incorporating some of their advantages. It is progressive, like most of the collective pension schemes. But it is financially sustainable, unlike the collective pension schemes. It places no investment risk on the individual, unlike the defined contribution schemes of individual retirement accounts.

Let me emphasise this, that the reason why the CPF system is both progressive and sustainable, which is a rarity, is because the transfers that take place in the CPF are essentially from the Government Budget, not through transfers from one generation to the next, or promises made to the current generation which eventually have to be funded by the next generation. It is transfers that are achieved mainly through the Government Budget and the Government has a AAA rating. That is the strength of the CPF system. It is sustainable, it is progressive but it achieves its progressivity through transfers from a AAA-rated government. That is why we retain the whole system of fiscal discipline, prudence and planning for the future that keeps the CPF system both progressive and sustainable.

How do we inject this support? Through Workfare, which is a very significant infusion into the accounts of lower income workers. Through housing grants for the lower and middle-income member. Through Medisave top-ups, which are now a permanent feature for the Pioneer Generation. Medisave top-ups throughout their retirement years. And through extra interest on smaller balances.

In each of these areas, in each of these elements' of progressivity, there has been an enhancement, a significant enhancement since 2007. To illustrate how significant the Government's role in the CPF is, this aspect of collective responsibility in the CPF. If we consider a young worker today, taking advantage of all our schemes in the CPF, all the enhancements we have made. A young worker, someone who is at the 10th percentile of incomes today. By the time he retires at age 65, he would have received $200,000 of Government support in his CPF – through Workfare, through the Housing Grant – I am not counting interest earned on the Housing Grant; just the original Housing Grant; Workfare and extra interest, it is $200,000 over the course of his working career till 65. Not a small sum.

When Mr Gerald Giam described the CPF system as a defined contribution scheme – that is the way it is referred to sometimes theoretically. But, it is, in fact, not just an individual savings scheme. It is a scheme that comprises the individual's savings and significant injections of Government support. It is individual and collective.

We have further enhanced the system by providing additional flexibility as recommended by the CPF Advisory Panel, while keeping its basic strengths. Keep it fair, keep it sustainable. The CPF Advisory Panel has recommended allowing for the flexibility of a 20% lump sum withdrawal of retirement savings at the payout eligibility age. Quite an important recommendation. We had to think very hard about this because we know there is a trade-off in retirement payouts. If you take out 20%, you get lower payouts for the rest of your life. But we decided that this was the right approach to provide a degree of flexibility. And, on top of this, in the Budget, we are enhancing interest for lower balance members, starting from age 55, to help them to accumulate their balances in their retirement years.

It is not a perfect system. It avoids the big disadvantages of the major schemes that we see in the rest of the world, but it has some significant advantages. It is fair, it is sustainable, and it takes risk away from individuals who cannot bear that risk. Not a perfect system, but it is working quite well and it is internationally recognised by the experts as one of the better systems around.

The Workers' Party Members have suggested further flexibility. In addition to the option of the 20% withdrawal at age 65, they suggested an option of earlier payouts starting from the age of 60. Looked at in isolation, any proposal for flexibility appears reasonable. When we look at each proposal in isolation, it appears reasonable to provide more choice and flexibility. However, there is a real risk in offering this flexibility that we have to be honest about. It is not a crazy idea, but it is an unwise one because there is a real risk when we offer this flexibility.

It has been tried in other countries. And, in fact, everywhere it has been tried, the result has been that those who take up this option of early payouts, end up less prepared for retirement. Less prepared because they stopped work earlier, or less prepared because they will have lower payouts through the rest of their lives. The upshot of it, or the real outcome, is that the rest of the society eventually has to take on larger responsibility to support them – as Ms Chia Yong Yong had reminded us.

The countries that had tried introducing this option of early payouts are now reversing course. It had been tried. Denmark was an example. They introduced it very early on. In 1979, they introduced such a scheme. They called it the voluntary early retirement scheme. In fact, the real aim at that time, because they were having a bit of an unemployment crisis, the real aim was to persuade older workers to get out of the workforce and make way for younger workers. Then, the pressures of an ageing population began to take hold; it put great pressure on the pension system's financial sustainability. And the weaknesses of allowing for that early payout became known over time.

So in 2006 and then 2011, they passed reforms to reverse course, aimed at phasing out this early retirement option with early payouts. It was supported by the opposition and the government at that time. They have had changes in the government, and the new government that has come in has stuck to the reforms because the early option was the wrong move for the individual and the wrong move for the rest of society which would have had to end up paying a higher burden. That was what it amounted to. It was a wrong move for the individual and the wrong move for the rest of the society.

The Finnish are another example, very similar example. They introduced it and they have had to reverse course.[7] The French, more recently, just two years ago, 2012, made a concession for some workers to get an earlier payout from age 60. They went against the grain, but only for some workers – those who start work at 18 years old and had made a minimum contribution of almost 42 years into the system – a small group. Even for this group, they realised, just two years later, last year, that it was a mistake. They are going to face growing pension deficits and they realise that this was actually a mistake in helping individuals prepare for their retirement. They now have to take steps to reverse the decision and they are bringing the minimum contribution period up from 41.5 years or so to back to 43 years. So, they are extending the minimum contribution period you need, to 43 years, before you can have an early payout - which very few people would qualify for.

The United Kingdom has also gone against the grain, allowing retirees to take out their retirement savings early. Previously, they had mandated everyone to put their monies in an annuity – it is a bit like your CPF LIFE where you can choose your annuity. Now, they allow the retirees to take it out, partly because the annuities in the market were offering very poor returns, far poorer than what we offer on the CPF. It is probably a political gesture, largely a political gesture – they have allowed retirees to take their money out early and do what they want. And it has been viewed negatively by experts. The OECD has warned that this is detrimental to both retirement income adequacy and incentives to work, and has urged the United Kingdom to make a move

[7] The abolishment of the early old-age pension also led to a rise in the effective retirement age. This pension type is no longer granted to persons born in 1952 or later. Source: Finnish Centre for Pensions – (http://www.etk.fi/en/service/home/770/archive?contentPath=en/tiedotteet_uusi/05022015_clearly_rising_effective_retirement_age&date=05.02.2015&tab=notices)

back to the annuity system.

The reasons are the same all over the world. It is good to offer choice, but part of the human predicament all over the world is that we will all place greater priority on what happens today and the benefits that we can get today, rather than what you get well into the future. And we all under-estimate how long we will live. It is true all over the world. It is true in Japan, it is true in Europe, it is true in United Kingdom. People place more priority on what they get today than well into the future and they under-estimate how long they will live. That's the human predicament.

These countries face the same challenges of rising life expectancies that we do, except that in our case, it is even longer life expectancy than most. And their whole priority has been to encourage people to work for as long as possible, to save more wherever possible, and to defer drawing down on their pensions so that they have enough savings to last through their retirement years. That is the way in which the mature societies are moving – encouraging people to work more, to save more and to defer payouts where possible.

Indeed in countries like the Netherlands and some of the Nordic countries, they have gone a step further than the norm. The norm is to link the pension age to the retirement age. In those societies, they have gone a step further. They are now linking it automatically to life expectancy. So, as life expectancy goes up, the pension age and retirement age will automatically go up. They have agreed on a formula and it is now automatic. They have gone further. We are not planning on that move ourselves but these international trends illustrate the challenges that all maturing societies face. We should recognise the challenges honestly and not take positions for their populist appeal, when we know fully that putting such proposals into practice will merely set us back in tackling the larger challenge of ensuring adequate payouts throughout the retirement years.

But we do have to find every way of helping Singaporeans in their 50s and early 60s to get by and support their families, especially if their children are not yet in the working years. We do have to help them. Fortunately, the majority own their homes and have fully paid out their loans by the time they are 65.

In Singapore, 90% of our elderly households own their homes. And even amongst our lower income households, the vast majority owns their homes; very different from other societies. In Germany and Denmark, it is barely 20% of those in the bottom quartile who own their homes. In our case, it is a vast majority, over 80%. In Hong Kong, less than 50% of those in the bottom 20% of incomes own their homes. We are in quite a unique situation, and that's a real strength of our system.

Typically, someone living in a 3-room flat would have $300,000 in housing equity today. We have provided options and continue to make sure that the options are available to them, friendly to them, to help them to unlock part of the equity in their homes if they wish to. Mr Mohd Ismail Hussein has asked for more to be done in this regard, and Mr Vikram Nair has suggested what in effect amounts to a reverse mortgage scheme, which we have studied carefully and the Minister for National Development will address at the Committee of Supply.

And it is not just about them being able to unlock equity in their homes, it is about saving on rental costs which is a major burden in retirement in most advanced societies. So, that is a starting advantage, a major advantage – home ownership.

But we want to provide maximum support for individuals to continue working while they can, at a different pace if they wish. We have facilitated employment of older workers through re-employment legislation and we are providing substantial support through Workfare and the Special Employment Credit. It is not often recognised how powerful that support is.

For someone above the age of 65, or let us say someone at 65, who is a low-wage worker earning, say, between $1,000 and $1,500, the Government is effectively paying 20% to 40% on top of what the employer is paying - through Workfare and the Special Employment Credit. The Special Employment Credit of 11.5% and Workfare of 10% to 30%, depending on his income. If it is a worker earning $1,000, basically it is a 40% top-up that the Government is giving through Workfare and the Special Employment Credit. A very significant incentive to help them. That is why our re-employment rates are high and are increasing.

For those who are unable to work due to medical conditions, we have to be sympathetic, and we already allow them to apply for early withdrawal of the CPF. That is important.

Thirdly, we must remain as supportive as possible through our schemes on the ground, through our Social Service Offices (SSOs) so that individuals and families in financial difficulty get help.

So, that is our approach – help people gain their rewards from home ownership; help them stay in the workforce by providing additional support, making sure that all of us give them the dignity they deserve when they remain at work; help people who are unable to work for medical reasons, and for them there is a special scheme in the

CPF; but very importantly, help people on the ground through our social network and the various other Government transfer schemes.

Let me go on now to the Silver Support Scheme which, again, is not something that we are introducing just for now but must be sustainable to the future. There has been very good support from Members for the Silver Support Scheme and some have asked questions about how it is going to be funded, how sustainable it will be, and so on.

Silver Support and Workfare are the fourth pillar of our social security system. They aim at supplementing incomes so as to mitigate inequalities. And I have to emphasise again that is not about tackling absolute poverty, it is about mitigating inequality. So even as wages go up in future, we will still have Workfare and we will still seek to re-distribute incomes to the bottom 20% to 30%, even as wages go up. We have to temper inequalities.

And Silver Support, likewise, will remain a permanent scheme even as living standards go up in retirement. It is not about tackling absolute poverty or helping those who are the neediest. For that, we have Public Assistance and we have, besides Public Assistance, our social network on the ground, or the SSOs. Silver Support is a re-distributive scheme. So it is not that 30% of our elderly have no other source of support. This is an attempt to temper the inequalities through life.

I was heartened by the fact that most MPs reiterated the importance of the values of personal responsibility and family responsibility. We look after our children when we raise them and our children look after us in our older years. That is a critical part of the Singapore ethic. And Members of Parliament emphasised that we've got to retain the ethic.

Amongst elderly HDB households with children, close to eight in 10 are, in fact, are able to rely on their children for regular financial support. This is what the survey showed. And a substantial proportion of those in the bottom 30%, in fact, get support from their children. They also get Government support. Outside of Silver Support, there is other Government support. Significant transfers, in fact. Amongst the bottom 30% of retiree HDB households – the bottom 30% that we are targeting for Silver Support – an individual retiree receives on average about $640 a month today from the Government in subsidies and transfers. This is through the GSTV, through CHAS, through the other Government subsidies in healthcare and other areas, and through ComCare.

The question of how Silver Support would be funded came up. Mr Ang Wei Neng and Mr Liang Eng Hwa asked this question. First, let me clarify that this is unlike the Pioneer Generation Package. In the Pioneer Generation Package, we were setting aside funds for a special cohort of Singaporeans who built our country. It is defined by when you were born, not defined by how old you are now and in the future. This is a special cohort of Singaporeans. And it is a commitment made by today's Government. That is why we decided to set aside the funds today from the revenues that we have in this term of Government, to fund the entire cost of the Pioneer Generation Package.

The Silver Support Scheme is different. Like Workfare, it is a permanent scheme for today and tomorrow's retirees, for our future generations of retirees, and it will be funded out of our annual budget. And that is why we have sized Silver Support

Scheme the right way, both in terms of coverage - avoiding the mistakes seen elsewhere where coverage is extended to everyone - and we've also sized it right in terms of the extent of benefits. Not just for fiscal reasons, but to ensure that we preserve the ethic of family support and community support.

We have built the Silver Support Scheme and its future funding requirements into our fiscal planning. The sums will grow over time as more baby boomers retire.

But the far bigger driver for our social expenditures is that of healthcare spending. That is the big driver of future expenditures - besides transport expenditures which I spoke about, particularly over the next 10 years. The driver over the next 10 years and beyond is healthcare expenditures. And that is inevitable because our society is getting older.

But we have a real strength in our system. We are starting from a strong position. Because when our society was young and growing, we practised fiscal discipline. We kept our expenditures trim. Our social expenditures were basically education, housing and healthcare. We kept social expenditures trim and built up fiscal savings in our first few decades whilst other countries did the opposite. The experience of the advanced countries was that when they were young and growing, they built up their social benefits, in fact with unfunded commitments, and they are now paying the price.

Our position is exactly the reverse. In our young and growing years, we built up our reserves which now give a lasting benefit for today's generation and future generations. We have a steady stream from our NIRC which will be sustainable well into the future, as I have explained. The rules on the reserves ensure that the reserves will not be depleted, and they will benefit both current and future generations.

We have prepared ourselves in advance and that must remain the way in which we plan for our budgets in the decades to come. With the change to incorporate Temasek in the NIR framework and the other tax changes I have introduced, in particular the increase in the personal income tax rate, we will be in a good position for at least the rest of this decade.

## E. CONCLUSION

Mdm Speaker, let me now conclude. This Budget concludes the major initiatives of recent years to empower Singaporeans at each stage of their lives. I thank the Workers' Party for its support for all the major thrusts of the Budget. And I trust you'll have the courage to take the same position and extend the same support during the elections. These are good programmes, and they are important programmes for our future. We should be honest about it, join together and stick to the courage of the conviction that this is the right path for Singapore.

Mr Zaqy Mohamad spoke about the commitments we made in our National Pledge and how the Budget reinforces these commitments, not just this year's Budget but what we have been doing in recent years – to build a democratic society, based on justice and equality, so as to achieve happiness, prosperity and progress for our nation. These values and aspirations are what we started with, but achieving them is continuous work in a changing environment and with a changing society. They are the values we started with but achieving them is continuous work, and we've got to live up to these values with each new generation.

The context in which we now strive to build our future is entirely different from what it was 50 years ago. Our competition is no longer regional but global, as Mr Low Thia Khiang himself acknowledged. It is no longer regional competition. If you read the first Budget speech – who was it who mentioned Mr Lim Kim San's speech, Mr Liang Eng Hwa mentioned it – he spoke about Indonesia, about Malaysia. It was about the region and how we earn our place in the region. The competition is now global. It is Asia-wide, it is emerging countries around the world and it is the most advanced countries.

We can no longer prosper and progress through hard work alone. Our people have to master deep skills in every field, and our enterprises have to bring new ideas to the market and as Mr Lim Swee Say said, ‘fly east and chase sunrises’.

Our society is also becoming more diverse in its aspirations and its needs. Important change. It is a more diverse society, and with greater need to temper disparities in life as our economy matures and as our people get older. So our strategies, both economic and social, must evolve as the environment around us changes, as the competition changes and as our own society changes. But at the end of the day, it is not just about the economic and social strategies of the Government, it is not just about what we do from one Budget to the next. It’s not just about seizing new economic opportunities and strengthening social security.

Most importantly, it is about how we relate to each other as people, the respect we extend to every citizen for the effort that they put in and the care that we extend to one another. As Mr Lee Kuan Yew said, nearly two decades ago, “We cannot measure our happiness just by our GDP growth. It is how our families and friends care for each other, how we look after our old and nurture our young. They are what make for a closely-knit society, one we can be proud to belong to.”

Mdm Speaker, I thank you.