

2010 BUDGET DEBATE ROUND-UP SPEECH APPENDIX 1

TRANSFERS TO AN ILLUSTRATIVE LOWER-INCOME (BOTTOM 20%) FAMILY OVER A LIFETIME

METHODOLOGY

Transfers to lower-income families can be categorised into two broad areas:

- Government subsidies for their education and skills, and to help them build up their assets. These include childcare and education subsidies for their children, Continuing Education and Training (CET) subsidies to help them improve their skills and capabilities, housing grants, and help in building up their CPF assets for retirement.
- Support to help them meet immediate needs, including the cash portion of the Workfare Income Supplement, healthcare subsidies, benefits for parenthood, and other cash benefits.

The estimates below assume the eligibility criteria and the subsidy levels of government schemes remain the same as today in real terms.

CASE STUDY

The total transfers a household can receive through various government schemes would depend on the household's specific characteristics and needs. Hence, some households could receive more or less than others.

For the purposes of estimating lifetime benefits, we consider an illustrative young family within the bottom 20% of incomes:

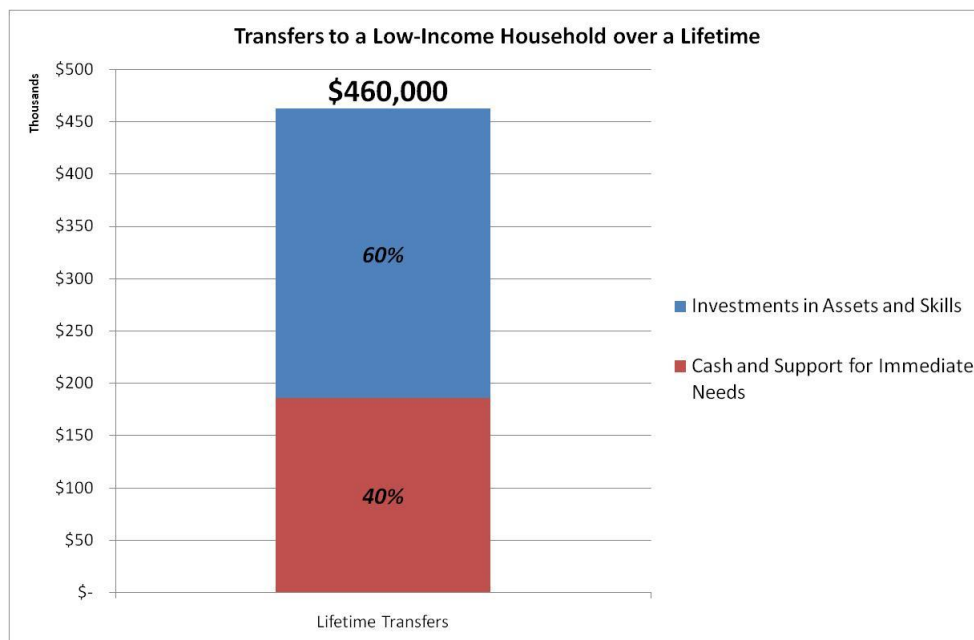
- Today, the husband and wife are aged 29 and 26 respectively. They both live until they are around 80 years old.
- They purchase a 3-room resale HDB flat that costs about \$200,000 near their parents.
- They have a combined income of \$1,500 per month. He earns \$1000, and experiences some real wage growth; she earns \$500 from part-time work. Over his working life, the husband experiences four spells of unemployment (say, for 2 months at a time) and undergoes retraining twice. Both husband and wife retire in their mid-60s.

- They will have two children; each will attend childcare for four years before going through 10 years of school education. One of them will eventually go to a polytechnic, the other to ITE, both at 17.
- When they retire, the parents enrol in the Lease Buyback Scheme to obtain a stream of retirement income from their HDB flat.
- The family of four occasionally seeks medical treatment, including episodes of hospitalisation (at the same level of incidence as for the general population). In her old age, the wife resides in a nursing home for four years.

Total transfers over 60 years

Over the couple's lifetime, the family can expect to receive transfers (through cash, subsidies, top-ups to CPF accounts etc) totalling about **\$460,000** in real terms (2010 prices). This is more than half of the couple's expected lifetime income (in 2010 prices). See Annex A for the listing of the various types of transfers.

About 60% of this would comprise Government grants and subsidies for their education and skills, and to help them build up their assets. The remaining 40% would comprise support to help them meet immediate needs. See chart below.



What is excluded

The estimated transfers above exclude the following:

- Discretionary special transfers¹. In the last ten years, for example, the discretionary special transfers that this bottom 20% household would have received would have more than offset the total taxes that they would have paid (even if the GST rate had been 7% throughout the decade).
- Government spending on subsidised education in schools and post-secondary educational institutions, which all students (regardless of income) benefit from.
- Polyclinic subsidies, which all patients (regardless of income) benefit from.
- All benefits received by the two children in the family themselves once they complete their post-secondary education. Only the benefits received by the parents, including benefits when the children are still undergoing education, are included.
- The extra 1% interest on the first \$60,000 of each parent's CPF balance. All CPF members benefit from this extra 1% interest on the first \$60,000 (on top of the interest rate on Special, Medisave and Retirement accounts of 10-year SGS plus 1%). Lower-income families, who have smaller balances, benefit more.
- The contribution of government grants (HDB housing grants, WIS and other CPF top-ups) to the future value of the couple's assets (as their HDB flat value and CPF savings appreciate). For example, HDB prices have appreciated by 3.1% per annum, or 1.4% per annum in real terms, over the last decade. Even a modest rate of price appreciation of their HDB flat over the next four decades will lead to a significantly higher value, by the time they eventually take advantage of the Lease Buyback Scheme. Built into this higher value would be the contribution of the initial \$80,000 in housing grants that the Government gives this lower-income family. The appreciation in the value of this \$80,000 contribution is however not included in the estimated transfers above.

¹ Examples of such discretionary transfers over the last ten years include Utilities-Save rebates, Service & Conservancy Charges rebates, Growth Dividends, Workfare special payments, CPF Medisave and Post-Secondary Education Account top-ups, Opportunity Fund top-ups and GST Credits. The regular WIS payments and other ongoing subsidy and grant schemes are not discretionary transfers.

List of transfers that the family receives

Investments in Skills and Assets

<i>Childcare</i>	
<p>The family receives childcare and student care subsidies, as well as Government matching for their savings in their Children Development Accounts.</p>	<p><u>Schemes</u></p> <ul style="list-style-type: none"> • Baby Bonus (Children Development Account) • Centre-based Financial Assistance for Childcare (CFAC) • Centre-Based Childcare Subsidies • Student Care Fee Assistance Scheme (in Primary School)
<i>Education</i>	
<p>The household receives financial assistance for lower-income families at all levels of education (Primary, Secondary, ITE and Polytechnic bursaries), which helps to cover tuition fees as well as other associated costs like textbooks and uniforms.</p>	<p><u>Schemes</u></p> <ul style="list-style-type: none"> • MOE Financial Assistance Schemes • CDC-CCC NITEC bursary • MOE Polytechnic bursary • Interest Subsidy for Tuition Fee Loan Scheme (Polytechnic) • Edusave top-ups; and occasional Edusave Merit Bursaries (that children from the bottom 50% of households by income are eligible for) • NEU PC (Personal Computer) Plus Programme <p>The subsidies that all Singaporean students enjoy, that result from government spending on education, are not included in the calculation.</p>
<i>Continuing Education and Training</i>	
<p>The husband undergoes two stints of retraining (about 50 hours for each stint) while unemployed. He enjoys benefits under the newly-introduced Workfare Training Supplement (WTS) Scheme. (Subsidies received by his employer for any other training stints are not included in these calculations.)</p>	<p><u>Schemes</u></p> <ul style="list-style-type: none"> • WTS Course Fee Subsidies • WTS Training Commitment Award

Housing	
<p>When the husband and wife purchase a resale flat, they receive housing grants provided to Singaporean households upon the purchase of resale flats, as well as the Additional Housing Grant of \$40,000 provided to lower-income households. They also receive an interest subsidy from the concessionary loan from HDB for the housing mortgage. They receive a further subsidy subsequently when their HDB flat is improved through the Home Improvement Programme.</p>	<p><u>Schemes</u></p> <ul style="list-style-type: none"> • CPF Housing Grant Scheme for resale flats (including higher-tier Family Grant) • Additional CPF Housing Grant for lower-income families • Interest subsidy for HDB concessionary loan rate • Home Improvement Programme
Retirement	
<p>The husband and wife receive a portion of their Workfare Income Supplement (WIS) payouts in their CPF accounts. When they retire, they sign-up for the Lease Buyback Scheme and receive a \$10,000 subsidy, out of which \$5,000 is used to purchase a CPF LIFE Plan. The other \$5,000 is in the form of a cash grant.</p>	<p><u>Schemes</u></p> <ul style="list-style-type: none"> • CPF component of WIS • Lease Buyback Scheme (CPF component)

Cash and Support for Immediate Needs

Healthcare	
<p>The household receives means-tested subsidies when they undergo treatment in the public healthcare system (at the same level of incidence as for the general population), and the wife uses step-down care (nursing home and day rehabilitation) services in her old age. This household can also tap on Medifund.</p>	<p><u>Schemes</u></p> <ul style="list-style-type: none"> • Inpatient Subsidies • Specialist Outpatient Clinic (SOC) Subsidies • Nursing Home Subsidies (4 years) and Day Rehabilitation Subsidies – both for the wife • Medifund subsidies <p>Polyclinic subsidies are not included in the calculation of benefits.</p>

Marriage and Parenthood	
When the couple has children, they receive the Baby Bonus cash incentive. They also benefit from Government-paid childcare and maternity leave.	<u>Schemes</u> <ul style="list-style-type: none"> • Baby Bonus (Cash) • Government-Paid Maternity Leave • Government-Paid Childcare Leave
Cash Benefits	
The husband and wife receive a portion of the Workfare Income Supplement in cash. In times of financial distress, such as during the husband's brief periods of unemployment, the family is eligible for Work Support and assistance from the CCC ComCare Fund.	<u>Schemes</u> <ul style="list-style-type: none"> • Work Support Scheme • CCC ComCare Fund • Cash component of Workfare Income Supplement (WIS) • Lease Buyback Scheme (cash grant)