

# **BUDGET 2011 DEBATE ROUND-UP SPEECH BY MINISTER FOR FINANCE, MR THARMAN SHANMUGARATNAM ON 2 MARCH 2011**

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## Introduction

1. Mr Speaker, Sir, I thank all members for their views and suggestions. I have listened closely to all of them, on a few occasions when I have had to take a biological break, I have made sure I read all the transcripts and I will address in my round up all the key issues that pertain to the Budget.
2. But there are many other issues that the members have raised which should be taken up by the respective Ministers in their COS.
  - a. Issues concerning marriage and parenthood, specific policies concerning the environment, the elderly, the disabled, policies concerning the arts and sports, measures to help youth and families at-risk.
3. It has been a rich debate and I am sure my colleagues will take into account not just what will be said during the COS cuts but also what has been said during the Budget Debate itself.

## Summary of key issues

4. The key issues that I want to address during my round up are basically four:
  - a. First, whether we have adopted the right strategies to boost productivity;
  - b. Second, how we can keep social mobility going and uplift lower-income Singaporeans;
  - c. Third, how we are addressing the issue of rising cost of living and in particular whether we should we cut the GST;

- d. And finally, how do we sustain a progressive fiscal system whilst meeting future expenditure needs.
5. Let me address each of the four issues in turn.

## **Raising Productivity**

6. DPM Teo has provided an overview of our strategies to boost productivity, including what's already been rolled out, including many examples of how businesses are in fact taking advantage of our schemes. They are upgrading, taking advantage of the various new grants under the National Productivity Fund as well as existing grant schemes that SPRING and other agencies have.
- a. And as DPM Teo and several other MPs have emphasised, MP Denise Phua, NMPs Paulin Straughan, Mildred Tan and many others, tripartite collaboration is important in all of these. And our Labour MPs in particular, spoke in some detail about what they are doing, what the unions are doing to work with specific industries and companies to redesign jobs, raise skills, raise productivity and thereby raise wages.
7. The Productivity and Innovation Credit (PIC) was introduced last year and enhanced this year. I think everyone, including our businesses, recognises that:
- a. It is a generous scheme.
    - i. It effectively amounts to a significant cut in corporate taxes for companies that are investing in productivity.

- b. But we have received feedback since the Budget. In fact since a week and a half ago, we've received further feedback from our chambers, associations and several individual businesses:
    - i. Our SMEs do face an impediment in taking full advantage of the scheme. They want to invest now. They want to take advantage of the scheme but they have cash flow problems. The scheme provides them significant rewards later. So we studied various options how we can help these businesses because I agree this is a valid concern.
8. I have therefore decided to allow tax deferral under the PIC scheme. Tax deferrals that will allow businesses to obtain cash in the same year as their investments – by deferring the taxes that they need to pay in the current year to the following year.
- a. For up to \$100,000 of qualifying PIC expenditures in the current year, businesses may defer the same quantum of tax to the next year. \$100,000 caters to a very broad base of SMEs, when you talk about the types of investments or the types of training expenditures they intend to incur.
  - b. This tax deferral allows businesses to effectively enjoy their tax savings under the PIC scheme one year in advance, if they so wish. It will apply to expenditures incurred for the year of assessment 2012 to the year of assessment 2015.
9. Some members have mentioned that businesses are under the impression that the PIC claim process will be complex.
- a. This is in fact not the case.

- i. PIC benefits can be claimed as part of routine tax filing.
  - In fact, for companies, no additional supporting documents are required specifically for the PIC claims.
  - And for smaller outfits like sole-proprietorships and partnerships, for whom it is not a requirement to submit audited accounts together with the tax returns, they will only need to furnish in a simple form the details of their expenses for PIC. So we'll keep this very simple, easy to understand, easy to make your claims.
- ii. Businesses that wish to opt for the cash grant option under the PIC can do so anytime after their financial year has ended, although I'd say that with the new enhancement that I've just announced - the tax deferral scheme, many businesses will choose to take advantage of that and not wait until the cash grant becomes available in the following year.
- iii. The Government will provide support through our Enterprise Development Centres at key business chambers and associations to advise businesses:
  - Not only on how they can improve their productivity;

- But also on how they can tap on the whole range of government schemes available including our grants as well as our PIC scheme.

10. IRAS has in fact been very active in publicising the PIC.

- a. It sent out brochures to 225,000 businesses late last year, conducted 50 PIC seminars for 7,600 participants.
- b. But it is going to do more. And I urge industry associations and chambers to continue to work actively with IRAS to increase awareness and help get maximum take-up rate of the PIC scheme. We will work with them.

### **Key driver for productivity – The tight domestic labour market**

11. To complement business restructuring and productivity investments, we also need to manage the supply of foreign workers (FWs) – as many MPs, including MPs Arthur Fong and Yeo Guat Kwang just this afternoon, have mentioned.
12. We want to make a quantum leap in productivity. Ten years from now, we want to be in a very different place from where we are now. And we know we will not get there if we continue to rely extensively on low-skilled foreign labour.
13. We introduced one round of foreign worker levy increases last year, and we extended and accentuated the increases this year. But the foreign worker levy increases are not the fundamental driver for the business upgrading that has to take place.

- a. The key driver is a tight labour market. We have virtually full employment. The growth of our labour force going forward is also going to be extremely low. Wage costs will go up. And in a full employment economy, it's not just wage costs, but rental costs and many other costs that will go up.
  - b. So, businesses will have to restructure and make adjustments because we have succeeded and we have a full employment economy. And going forward, the flow of additional local workers entering the work force is going to be limited. So we have to restructure in order to adapt to a high cost environment and to be able to grow without ever increasing labour inputs. That was the context in which we decided to extend and accentuate the FWL increases we announced a year ago.
14. In fact, the increase that we announced a year ago was measured. We were just coming out of a crisis. No one knew for sure how strong the growth would be. It was a series of measured steps over a period of two years. The growth turned out to be much stronger than expected and now local wages are going up. In fact, if we do not raise foreign worker levy further now, there's a real likelihood that the cost of foreign workers will go up less than the cost of local workers. And everyone knows that means an increasing demand for foreign workers.
15. So we have to extend the FWL increases beyond what we introduced last year. And it is better to do it now while the economy is still doing well and maintain that gradual schedule of increases rather than wait till later and introduce steeper increases in one go.

16. The increases starting from where we were last year up till 2013, which is where the schedule of new increases ends, will impact on business costs. But it is a measured impact. The total increase in labour costs for the business sector will be less than 2% when the changes are fully phased in.
17. Some sectors will be affected more – the more labour-intensive ones or, as many MPs have mentioned, sectors that depend on the human touch such as hotels, restaurants, and the retail sector. They depend on people. But these are the same sectors - construction, hospitality at large - the same sectors where productivity is relatively low compared to the industry leaders globally. There is significant headroom for us to reach productivity levels of the cities that are in the lead in these sectors.
18. Some MPs have also questioned the effectiveness of FWL as a mechanism to achieve what we want - to reduce the demand for foreign labour and encourage firms to upgrade. There is no perfect way of doing this. But there is no workable alternative to the FWL increases as a means of controlling the demand for foreign labour - for deciding on which firm or which industry should receive more or less labour at each stage of the economic cycle. There's no workable alternative besides using a clean, straightforward price signal.
19. MP Low Thia Khiang also questioned the effectiveness of the foreign worker levy.
  - a. But he offered no alternative in this speech this year.
  - b. Earlier, I think it was last year, he had suggested an alternative which essentially meant that bureaucrats set quotas for different

sectors and company sizes, and gradually reduce the dependency ratio to encourage productivity growth.

- c. This is not workable. It would only mean constraining businesses' flexibility to get the necessary manpower to expand when they got opportunities. And no group of bureaucrats will be able to decide on which company or which industry is more deserving and what the peculiarities of the circumstances they face are.
- d. So it is far better for us to use the price mechanism to provide clean incentives for employers to reduce dependence on low-skilled foreign manpower, while giving them the flexibility to manage cyclical changes in manpower needs.

## **Retaining a diversified and competitive economic structure**

- 20. While we cannot increase the number of foreign workers indefinitely - and we certainly don't want it to exceed, on any sustained basis, the 1/3 of the total work force target that we have set - we will still require a significant foreign workforce to keep our economy diversified and competitive.
  - a. We need a critical mass of workers, talent and expertise, to ensure we have viable economic clusters in Singapore, and a diversified range of economic clusters. Not just one or two clusters but several. We need this diversification. First because it provides some resilience - some industries go down while others are going up, it provides some resilience across the economic cycle. But importantly, it also provides a variety of good jobs for

Singaporeans. Not all Singaporeans are best suited to working in the frontline of a hotel or in a restaurant. Some are very good with their hands, very inventive with their hands, some are good in logistics. So we really need a wide range of sectors- manufacturing, including traditional and high-tech manufacturing, logistics, a range of service industries to provide good jobs for Singaporeans. And to provide good careers so that all Singaporeans can realise their aspirations in a thriving economy.

21. It is not a zero-sum game. Speak to any business that hires foreign workers and they will tell you it's not a zero-sum game. They will tell you that they are able to create good jobs for Singaporeans up and down the ladder because they have access to a certain number of foreigners. The foreigners complement the locals and make possible the story that we had in recent years. Increased demand for local workers that has pushed up their wages.
  - a. There are many examples. And I am just going to cite one, the only one in my speech. Small company, SME - Chun Cheng Fishery – it's a company that processes and exports frozen tuna.
    - i. They are a company of about 60 to 70 people, about half are locals. They employ foreign workers -- first, to fill positions in its freezing facilities, as local workers are not accustomed to working in a cold environment.
      - Freezing conditions. Tuna comes in, they are slicing. Local workers – hard to get them for this particular task because they are not so accustomed to working in such a cold

environment. They also brought in two experts last year from Japan to teach them how to identify the different grades of tuna and use automated cutting technology from Japan to maximise the efficiency and quality of their cuts. I won't go into the details but real productivity improvement. We didn't have the knowledge locally to be able to do this. So got in some foreign experts, very helpful. Now expanding, more demand for workers, opening up a new facility to increase their processing capabilities and diversifying as well into tuna sashimi processing- higher-value product

- ii. In fact, they are now planning to quadruple their output and this means more job opportunities for locals. Small firm. We are not talking about a huge number of job opportunities but multiply that example across the economy. This is what's happening. No zero-sum game. Provide them the workers they need. Give them continuous incentive to upgrade and reduce the need for low-skilled workers but try not to squeeze them out of business.

## **Social Mobility**

### **Dealing with income inequality**

- 22. Many MPs have spoken about social mobility, including Sin Boon Ann, Lily Neo, Yeo Guat Kwang and, just a short while ago, Irene Ng.

Actually I can mention many names. We are all concerned about the widening income gap, and it's a concern for all of us.

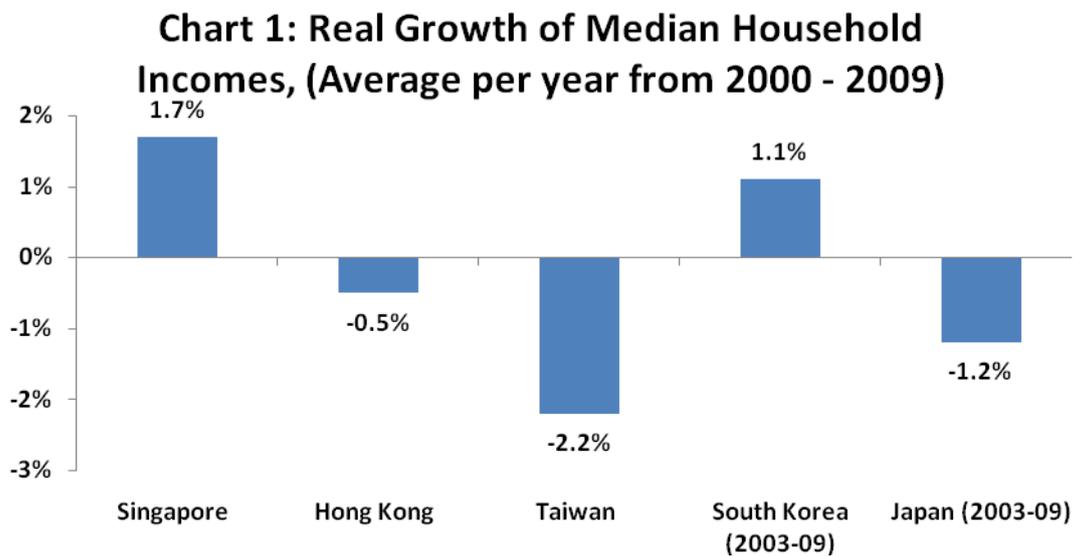
23. First, why is our income inequality high? It's because we are a global city. They are like that. If you look around the world, the global cities that compete with us especially, Hong Kong, New York, they all have high Gini ratios. In fact our Gini ratio is a little lower than most other global cities - Hong Kong, New York, and in fact 7 or 8 American cities.
24. The reason lies in the nature of the economy of a global city. They require a significant pool of highly skilled people who are also on the upper end of the income ladder - a significant pool of highly skilled professionals, executives and entrepreneurs. That's what makes the cities tick, and they compete with each other on that basis. Second, their entire economy, up and down the ladder as well as across the sectors are highly exposed to global competition, so wages are influenced by what competitors are offering. Each company you talk to - multinational or local - that is involved in the international market will tell you that they have got to track what the competitors are paying and what is being offered for the same type of talent or skill, So wages are significantly influenced by what is happening in the international markets and cities show this up in an accentuated way, which is why the Gini is high.
25. Income inequality is not irrelevant. It is something we should be concerned with. But, what matters most is not income inequality itself, but
  - a. Whether we succeed in raising incomes and living standards for all Singaporeans, including and especially the lower income groups.

- b. Second, as MP Sin Boon Ann and several other MPs said, whether we can keep providing opportunities - so that all Singaporeans regardless of their family background or starting points, have the chance to fulfil their potential and aspire to a better future.
26. Those are the key issues. Can we keep raising incomes, and related to that, can we keep providing opportunities for everyone to realize their potential and their aspirations.
27. If we want to achieve this, we need:
- a. A dynamic economy and society
  - b. Opportunities for all
  - c. We need to generate sufficient resources so that we can make the required transfers to help the lower-income to uplift themselves
  - d. We must maintain a sense of community where everyone participates, and those who have got more give back to the community and try to help the others.

## Raising incomes

28. Singapore has done well in growing incomes for our people; in fact we have done better than most countries with a much lower degree of income inequality, as measured by the Gini index. If we look at the median household across countries and growth of real median household incomes,

- a. Real median household incomes in Singapore grew by 1.7% per year from 2000 to 2009.
- i. We have done better than the other advanced Asian economies (see Chart 1):
- Hong Kong, Taiwan and Japan have seen declines in median incomes over the decade.
  - Median incomes in South Korea have risen, but by less: 1.1% per year.
  - We did better than economies that have a lower degree of income inequality.



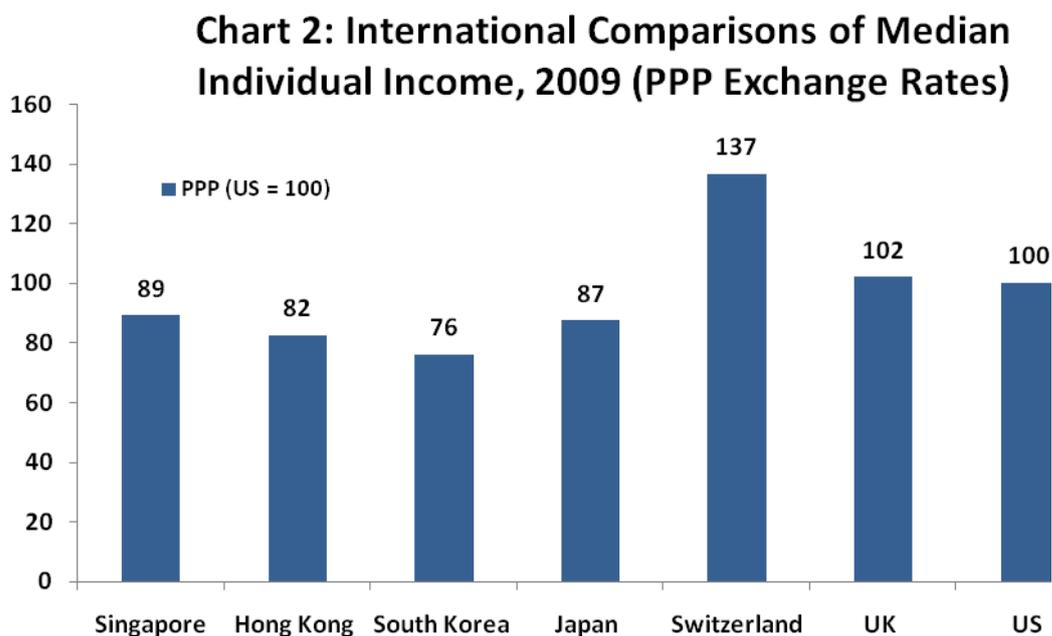
Source: Based on data from official sources

Note:

1. As far as possible, common definitions are used to facilitate comparability of data internationally. Income data is based on all resident households, except for Japan which is based on employed households.
2. The data refers to income from work, except for Hong Kong where it refers to total income.
3. Household income is adjusted for inflation.

29. Likewise, as a result of having grown our incomes, if we look at income levels, we are not doing badly either. When we compare median income levels in Singapore to other countries - and I compare here again to the more advanced Asian economies and a set of the most advanced nations, Switzerland, UK and US:

- a. Median wages in Singapore are higher than in Hong Kong, Korea and Japan, when adjusted for purchasing power parity. There is no perfect method for comparisons across countries, but exchange rates based on purchasing power parity are what the IMF and World Bank use (see [Chart 2](#)). I will also include as an Annex (see [Annex 1](#)) a comparison of median incomes using market exchange rate, which will show an essentially similar story.



Source: Based on data from official sources

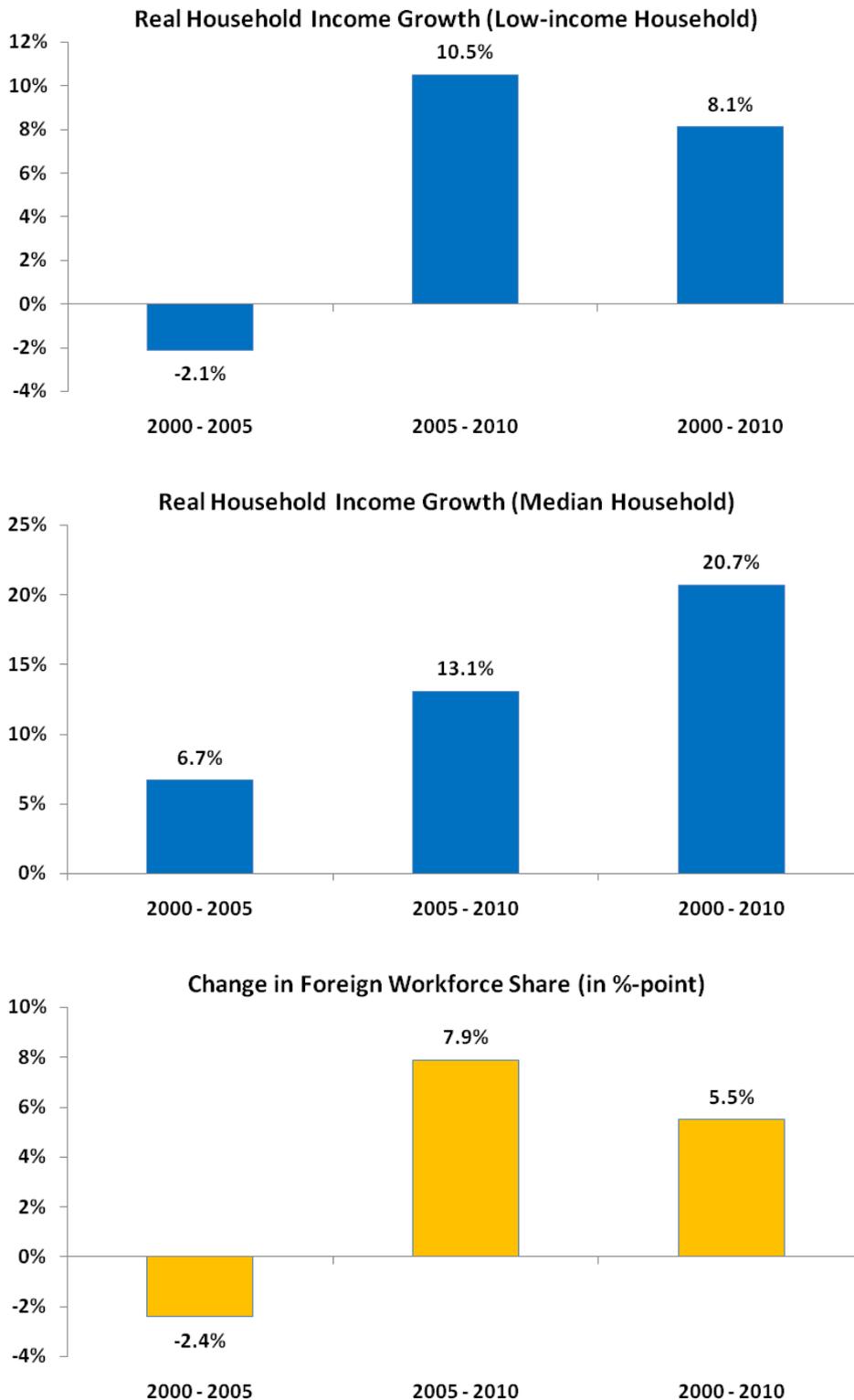
Note:

1. As far as possible, common definitions are used to facilitate comparability of data internationally.
2. PPP exchange rates as published by the IMF.

- b. However, our median wages have not reached the levels of developed economies such as Switzerland and the US.
  - c. If we grow incomes by 30% in the next decade, we will catch up with the developed countries' standards of living.
30. Growth in incomes has been accompanied by growth in employment. Singaporeans have benefited from the growth in employment. From 2006 to 2010, 228,000 new jobs went to Singaporeans. In fact in 2010 alone, 44,700 new jobs went to Singaporeans.
31. This has led to a higher employment rate among our citizens. If you look at the working age population and see what proportion of them are employed, we used to have a significantly lower rate than the developed countries, but we have now caught up. Our employment rate has caught up with most of the developed countries. The big difference, however, is that our high employment rate is a result of a very low unemployment rate among those in the labour force. Whereas the same employment rate in the developed countries is a reflection of higher labour force participation rates particularly among women, but offset by a very high unemployment rate.
32. So we are in the right place. A high employment rate because we have got very low unemployment – and that's because we have a dynamic economy. One aspect of maintaining a dynamic economy is ensuring we have rational policies, and this includes our policies on foreign labour. Have a price mechanism to encourage upgrading, but recognise that foreign labour is part and parcel of the growth that can help Singaporeans raise incomes.

33. Indeed, that's what we have seen. I have got another chart which I'm going to show. I'll focus now at the lower end, the 20th percentile household. MP Low Thia Kiang and some others have felt that the infusion of foreign workers has been to the disadvantage of Singaporeans. I did in fact address this last year and I'm going to do it again now, updated to 2010. As I mentioned in the Budget Speech, if you look at the blue bars first (see [Chart 3](#)), we have had significant growth in incomes at the lower end of workforce in the 2nd half of the decade. This fortunately helped offset the rough period they went through in the first half of the decade.
34. The second half of the decade was in the fact the same period where there was a significant growth in the foreign work force. The share of foreigners in the work force saw a significant increase, by about 8 percentage points in the 2nd half of the decade. But it was not inconsistent with growing local incomes. Why? Because local incomes and in fact wages generally, are not just dependent on the supply of labour but also dependent on the demand for labour. Yes, there was an increase in supply of foreign labour, but it went hand-in-hand with increased demand for labour across the economy. As every firm that employs both foreign and local workers will tell you, if they didn't have the foreign workers, they couldn't have more local workers.
35. So demand for labour picked up, unemployment went down, wages went up. That's the basic story.
36. But we know that we need to change the way we grow going forward, because our local labour force is now going to grow much more slowly. And we want to avoid an ever increasing proportion of foreigners in our workforce. That is why we have shift to productivity-driven growth.

### Chart 3: Real Household Income Growth and Increase in Foreign Workforce Share of Total Workforce



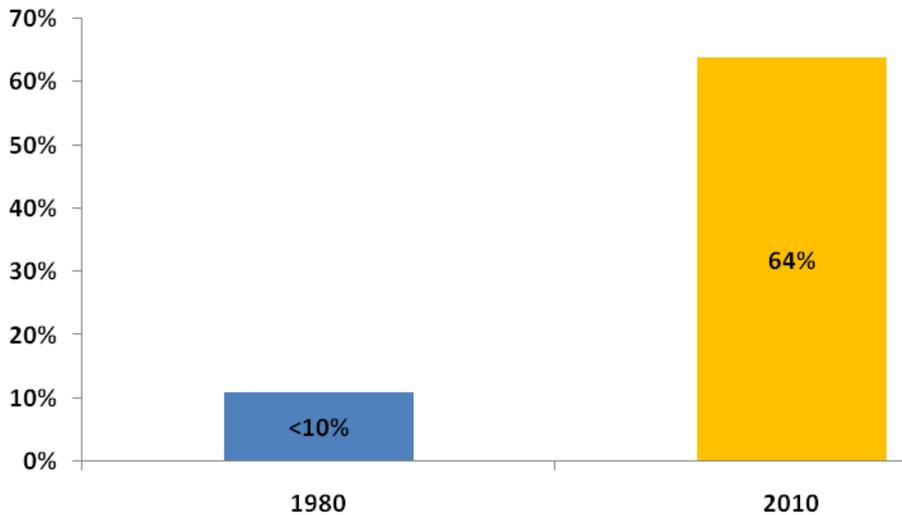
Source: DOS (for household income growth) and MOM (for share of foreign workforce)

Note: Real household income growth is based on household income per member and adjusted for inflation. The changes in the foreign worker share of the workforce is expressed in %-point change

## Social Mobility

37. Social mobility is a crucial aspect of our inclusive growth model, as MPs Baey Yam Keng, Zainudin Nordin, Lily Neo, Amy Khor, Irene Ng and Sin Boon Ann have argued.
- a. We maximise opportunities for everyone to do well
  - b. Our meritocratic system allows any Singaporean with drive and perseverance, and talent of different types to succeed. But we have to do more. And in particular, we have to do more to prevent a permanent underclass from forming - an underclass that replicates its condition across generations.
38. Let's put it in perspective. We have achieved phenomenal mobility in the last few decades. Very clearly since the 60s, but even since the 80s. If we look at the generation that is now in their late 40s and 50s. Their parents started off with little. But many of the children have done well through a meritocratic system and moved up. Shift forward one generation, look at the present generation of young adults. They too have done far better than their parents.
- a. In 1980, less than 10% of those aged 25-39 young adults had diplomas or degrees.
  - b. The proportion of 25-39 year olds with Polytechnic or higher qualifications has increased to 64% in 2010 (see [Chart 4](#)). So a significant shift even for that generation - not the first wave of mobility that happened in the 60s and 70s but what happened after. A very significant shift.

**Chart 4: Percentage of 25-39 year olds with Polytechnic or higher qualifications, 1980 vs. 2010**



Source: Census of Population, 1980 and 2010

39. Then move forward to today's generation of school kids. It's still happening. Not as fast as before, but still happening. Minister Ng Eng Hen will be talking more about this in the COS and Minister Vivian Balakrishnan will be talking about it too – what we are doing to keep mobility going.
- a. If you look at today's PSLE students, today's generation of young kids, amongst those who are in the bottom 1/3 of socio-economic backgrounds (defined by parents' education and type of flat they are living in), half of them end up in the top 2/3 of PSLE scores. So there is still significant mobility working through the system. But it will get more difficult in each successive cohort. As MP Sin Boon Ann rightly pointed out, it is precisely because of the success of past generations - precisely because we achieved a very high degree of mobility in the past.

40. This means that we have to put much more effort into our mobility efforts as we go forward, to prevent a cycle of disadvantage for those from lower-income backgrounds.
  - a. This has been and remains our approach to helping the lower-income group. MP Indranee Rajah gave an interesting example of the type of work required. Intensive scheme involving 8 children, all had failed primary 5. A lot of effort went into mentoring them and providing additional support. Of the 8 children, 6 managed to get into the express stream. That's the type of work that is required, but it also the type of results we can still get out of our system.
  - b. How we go about this is somewhat different from many other countries. How we go about ensuring that we keep up to this degree of social mobility, and try to alleviate the consequences of income inequality and reduce it whenever possible.

## Education

41. First, education is fundamental.
42. We invest heavily in education.
  - a. Particularly at the early stages, to reduce the disadvantages faced by students from low-income backgrounds:
    - i. The more we do early on to help children discover their strengths, the more likely they will be able to move up and do better than their parents.

ii. Since 2006, our expenditure on childcare and primary school education has grown much faster than for secondary and tertiary education.

- Childcare – 150% increase per child
- Primary school – 60% increase per student

iii. Preschool fees are extremely low for lower-income groups so that no family need worry:

- \$6/month for childcare
- Even less for kindergarten.

iv. Improve teaching quality.

Since 2006, primary schools have seen a 15% improvement in the number of teachers per students, and a 60% increase in Allied Educators and executive and administrative staff complement teachers

43. What New York Times columnist Thomas Friedman observed 1 month ago, about Gan Eng Seng Primary School, is true of our neighbourhood schools generally:

- a. We have principals and teachers who are passionate about what they do, and try to make learning interesting for each student

44. This is unlike many other countries with huge disparities in facilities and teaching standards, between schools in poor and wealthy neighbourhoods.
45. So, that's education. And I want to briefly address what NCMP Ms Sylvia Lim had mentioned about the disabled. The disabled are indeed a part of our vision of an inclusive society. And in fact, we are doing, frankly speaking, far more than many other countries that have signed on to the CRPD that she spoke about. But we want to do more. MCYS will be elaborating on this in the COS. It has the Enabling Masterplan that addresses the needs of the disabled comprehensively, not just the hardware aspects, barrier-free accessibility, but also the software - education, employment opportunities, the whole spectrum of issues that we want to address satisfactorily. We are doing more in early intervention, we are doing more for our SPED schools, we are doing more to achieve barrier-free access.
- a. By end of this year, 70% of our MRT stations will have at least 2 barrier free access routes. We are spending a lot of money on this, \$116 mil. By 2020, all our public buses will be wheelchair-accessible. It takes some time, but in fact, by end of last year, 40% of our public bus fleet already comprised wheelchair-accessible buses.
  - b. In this budget alone, we have done more for the disabled. We have extended the financial assistance scheme that MOE has to help needy children to our SPED schools; provided additional funding to the schools directly for them to decide on how best they can help needy pupils. And importantly, the Community Silver Trust will include the adult disabled. I quite agree with Ms

Sylvia Lim that we have to do more for our disabled adults. The community silver trust will enable us to do that by bringing in donors, bringing in charitable organizations, bringing in passionate volunteers. With government putting in significant resources to help match every contribution that is made. We need to do more, and we intend to do more.

## Housing

46. So that's the first plank – education. Next – housing, which I am not going into detail on, Minister Mah Bow Tan will be talking about this in the COS. We are helping the lower-income group own their houses so they can have an asset that appreciates over time. It goes beyond that. It is also about what MP Muhammad Faishal Ibrahim mentioned, which is about providing a sense of stability and a sense of belonging to the community amongst everyone. Because owning their flats gives them that addition sense of belonging and makes them feel that they too benefit from Singapore's success.
47. We're also constantly improving and rejuvenating the estates in which they live. That also keeps up the value of the flat. And it keeps a unique feature of Singapore, which is common space of a very high quality - where the broad spectrum of Singaporeans, low income group, all the way to at least upper middle income group, live in the same estates, enjoy the same facilities, the same parks, the same playgrounds, the same new sports complexes that are coming up under our Remaking Our Heartland programme. High quality common spaces: that too is part of an inclusive society.
48. (MPs Lim Biow Chuan and Lee Bee Wah have also asked about the private housing estates. We are not neglecting them. In fact, MND has

set aside \$46m over the next 3 years to upgrade our private estates - improving the parks, the playgrounds, footpaths, drains, rain shelters and so on.)

## Rewarding work

49. The third plank is what we do to reward work. Workfare and everything we are doing to help workers keep training and keep upgrading, while they are in the workforce.
50. We are putting a lot of resources into it. Many MPs had suggestions on how we should refine our schemes. MPs Halimah Yacob, Irene Ng, and Lim Biow Chuan suggested various refinements to Workfare - raising the income ceiling, making permanent some of changes we introduced in this year's budget, such as some aspect of the Workfare Special Bonus, and the Special Employment Credit - whether we should not make it permanent.
51. We will consider these holistically when we next review Workfare in two years time. But I think we have to bear in mind what MP Hri Kumar mentioned yesterday, which is that there are real trade-offs involved in all our assistance schemes, including Workfare. We want to provide assistance to the low income group; and in Workfare, we are topping up their wages. We want to prevent income inequality from widening. But we also want to make sure that we retain a strong incentive and reward for people who upgrade their skills and raise their income so they move out of the Workfare net. And that's a real trade-off that any Government has to face, regardless of how you intervene, whether it is regulated minimum wages or topping up wages through Workfare as we do. There is that real trade-off between helping people more and at the same time making sure that we retain the drive to upgrade, which is the

basis of dynamism in our society. And when we review Workfare holistically in 2 years time, we will have to look at this very carefully, what's the right balance.

52. So when we add up all the planks - education, Workfare training, housing and assets, how does it add up?
53. In the bottom 20% of household incomes, we choose a young family because I wanted to trace how much they will be getting over a lifetime. So husband and wife still young, in their late-20s or so. One of them earning \$1,000, another one working part time, let's say \$500, very low income family. They purchase a 3-room HDB flat near their parents. Let's say they have two children, one makes it to polytechnic, one makes it to ITE - I am not saying that's all they will achieve, but I am using it as an example.
54. Add up all the benefits that we are providing, including what we have introduced in this year's Budget. Our schemes will enable this family to receive about \$490,000 over their lifetime – or about 60% of their lifetime income (refer to Annex 2).
55. So this is not a small-minded Government, when it comes to intervening to help the lower income group. Not small-minded at all. 60% of lifetime incomes coming from the Government. The difference is how we do it, not how much we do. We are doing a lot but we are doing it a way which ensures that we retain the drive to upgrade, keep improving.
56. The majority of the benefits – about 60% - will come in the form of investments to their children's education, their continuous education and training, and in their assets. 40% comes in the form of cash and other subsidies.

57. I should mention that the \$490,000 figure that I gave excludes discretionary transfers - the special transfers that we give from time to time, which are in fact a further part of our subsidy framework. They are quite significant - if we look at the last ten years alone, for this type of family, although they are young, they would have received more than \$10,000 in the last ten years in the discretionary transfers.

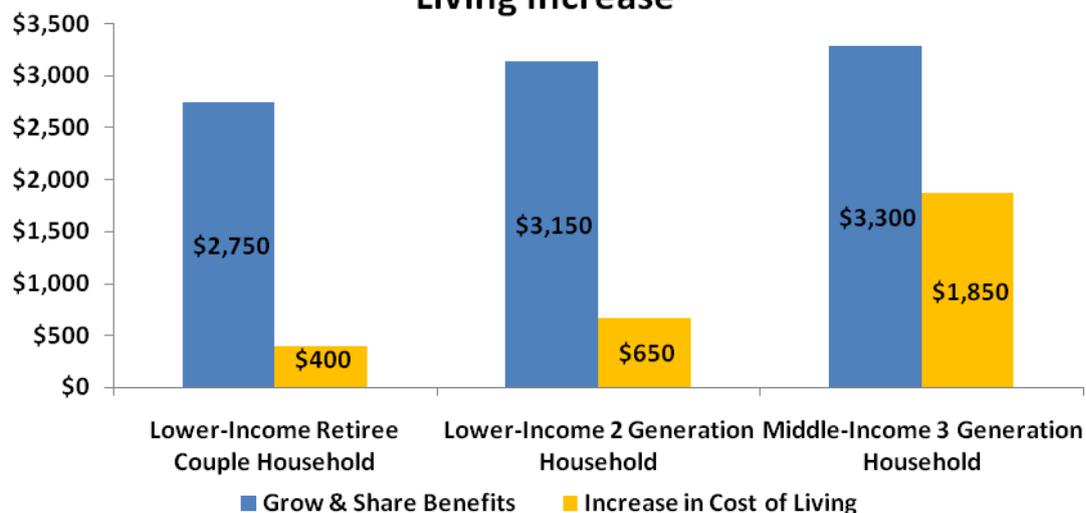
## **Cost of Living and GST**

### **Cost of living**

58. The cost of living issues, and in particular whether we should reduce the GST. We are all concerned with the rising cost of living, and know that it affects particularly our retirees and those with lower incomes.
59. Overall, we expect inflation to be 3-4% in 2011, although higher in the first half of the year. Sometimes in public perception we think that it's much higher than that because we are looking at the items that have gone up faster, for example, coffee, sugar, garlic, and cabbage. However, other items in the food basket have not gone up much or have declined, such as bread and tomatoes. So if you look at the overall food basket for the average household, it costs 2.8% more in January compared to a year ago.
60. Likewise in health, you can identify some costs such as certain in-patient bills which have gone up significantly, depending on the type of illness and treatment. But overall healthcare costs have gone up by just 3% in January. Still unsettling, but the increase is not as much as often perceived, because we have to look at the entire basket of expenditures of the average household, which is what the CPI is about.

61. The 'Grow & Share' Package in this year's Budget provides more than what is required for lower-and middle-income households to tide over this temporary period of high inflation. We're providing more than required to offset the increases in cost of living for lower and middle income households this year.
- a. Take for example a retiree household living in a three room flat, because that's the type of household that would be most hurt by the rising cost of living. Not working anymore, so they have to rely on their savings, and some other forms of support from their children. Their expenses are expected to increase by about \$400 for the entire year. They will receive more than six times this amount in transfers in 2011 from the 'Grow & Share' package - \$2750 (see [Chart 5](#)).
  - b. This holds true for most other types of households, for example, if you look at a larger, lower-income household with two children, they will receive about five times the increase in cost of living this year. Their costs go up by about \$650, but they will receive more than \$3000.
    - i. And if you look at a middle-income household, with three generations, they will receive about 1.8 times more than their cost of living increase.

**Chart 5: 2011 Grow & Share Benefits vs Cost of Living Increase**



Source: MOF Estimates

Note:

1. Based on 2007/08 Household Expenditure Survey data.
2. The increase in cost of living in 2011 is based on projection of 3% to 4% increase in household expenses based on the CPI; this excludes the imputed rental value of Owner-Occupied accommodation, which does not imply any cash outlay.
3. It also excludes the cost of purchasing new cars, which only a small proportion of Singaporeans would encounter this year.

62. The figures I have given are excluding the permanent changes that we implemented this year, such as the removal of Radio/TV license fees and the revision of Public Assistance (PA) rates, enhanced bursaries and so on. And I should mention that contrary to MP Low Thia Kiang's observation that our PA rates have lagged inflation, we have increased PA rates by 21% since 2009. For a single-person household, the rate increased from \$330/month to \$360/month in 2009, and again this year from \$360/month to \$400/month.

63. There will invariably be some needy families with unique circumstances, for whom the package does not fully cover the increase in cost. Not large in number but there will invariably be some such families. For those who need extra help, we have other schemes to

help them. We all know about these schemes, such as ComCare and other local as well as national schemes.

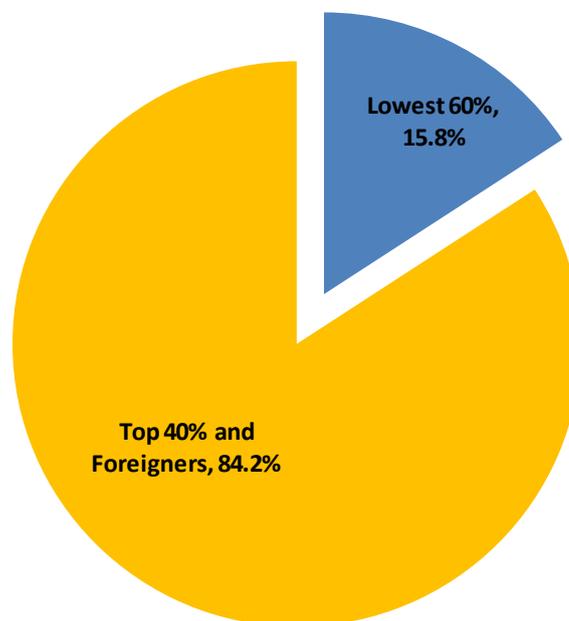
64. But as MP Halimah Yacob has emphasized, the lasting solution is not these transfers that we are able to provide because we have a good budget this year. The lasting solution is the most important part of Budget 2011, which is to raise incomes and productivity – in other words grow incomes on a real basis so that purchasing-power goes up over the next ten years.

### **Why cutting GST is the wrong solution**

65. MP Low Thia Khiang dismissed all that we are doing to help families fully offset the cost of living increases this year. And I've shown you the chart, it's more than a full offset.
66. More importantly, he had nothing to add on to the longer-term strategies that we had introduced and reinforced through the Budget, strategies to strengthen our economy, raise productivity and incomes; to strengthen our society for the future; Develop long-term care for the elderly; substantially enhance bursaries for lower- and middle-income students; and lower income taxes for the middle-income.
67. His solution to the rising cost of living was instead to control prices. He did not specify what mechanism would be used to prevent prices of items like food from rising. But he proposed reducing GST by two percentage points from 7% back to 5%, and waiving GST for basic necessities. That is his solution.
68. Let me explain why this is the wrong solution, and would only involve giving more money back to wealthier groups, while taking something away from the poor.

69. First, the bulk of the GST we collect in fact comes from higher income groups and foreigners. It does not come from the lower- and middle-income groups.
70. Based in fact on our 2010 collections, the bottom 20% of Singaporean households contributes only about 4% of all GST paid. The first 60%, in other words from the lowest end to the 60th percentile of households, pays about 16% of all GST (see Chart 6).

**Chart 6: Contributions to Total GST Collections, 2010**

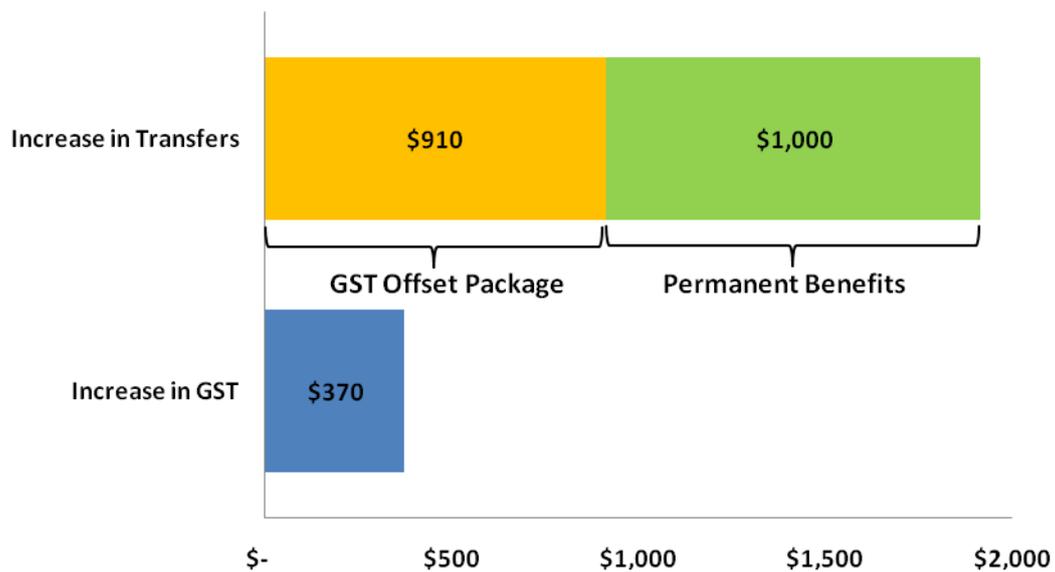


Source: MOF Estimates

71. Furthermore, the GST is a core part of a fiscal system that provides substantial transfers to our lower income group, including: Workfare, which we introduced together with the GST; including bursaries, healthcare subsidies, housing grants for low-income families; and also including special transfers which we do from time to time to help the lower- and middle-income groups, as we've done this year

72. So when we add it all up and see what happened with the introduction of the GST – how much more they have to pay, and what additional benefits they're getting, let's have a look.
- a. When we raised the GST from 5 to 7% in July 2007, first, we provided a substantial package of GST offsets to help take care of the higher costs for the low income group, as well as the middle income group. So for a household in the bottom 20%, the annual increase in GST paid was itself fully made up for by the GST Offset Package. The annual increase in GST paid, \$370 per year, but the GST package per year was \$910.
  - b. On top of that, we introduced permanent programmes to help the lower income group, including Workfare (see [Chart 7](#)).
73. When you add it all up, this bottom 20% household, if you include both the GST offset package and the permanent programmes, would have received five times their increase in GST costs. The GST offset package by itself was adequate to offset the increase in GST.
74. But of course, the GST offset package is not forever; hence we have permanent programmes which are far larger than the increase in GST costs for the household.

**Chart 7: Average Annual Additional Benefits Received Significantly Exceed Additional GST Paid After 2007**



Source: MOF Estimates

Note:

Figures refer to annual additional transfers received and GST paid by an average Singaporean household in the 2nd decile over the period 2008 - 2010.

75. For middle-income households, similar picture, they received roughly five years of full offsets for higher GST costs. Less permanent benefits, but full offset for five years.
76. And for all Singaporeans, the GST was part of the fiscal changes we made to enhance growth - to invest in capabilities, reduce corporate taxes, and encourage investments, so that incomes could rise over time. And that is exactly what we have succeeded in doing.

## Multi-rate GST

77. It will also be the wrong solution to have different GST rates for different items, such as to have a zero percent rate for basic necessities. I had addressed this fully in 2007; MP Low Thia Kiang had raised it again in 2008 and I had addressed it then too. Let me go over it again.

Exempting basic necessities from GST is an extremely inefficient way to help the poor. It sounds good, but it would be counterproductive.

78. Firstly, even for bottom 20% of Singaporean households, the commonly-cited eight essential food items – rice, salt, sugar, edible oil, soya sauce, vegetables, flour and fish, comprise only 6% of their total household expenditures. Including all other uncooked food items, the total is still only about 15% of their total expenditures.
79. Secondly, even when we look at basic necessities, the bulk of the GST comes from the better-off groups. They consume more of everything, not just luxury items, but basic necessities as well. It is therefore much better to collect the GST on essential goods from everyone, and use the resources to support the poor directly.
80. There is much evidence too from other countries that a multi-rate GST ends up raising business costs significantly, and we know that this means that the costs are passed on to consumers.
81. In fact, the OECD did a recent comprehensive study including countries with a broad based and flat rate GST system and concluded that a broad-based and flat-rate GST system is the best policy choice. Its reasons were exactly the same as ours when we decided to go for a flat rate system.
82. The experience of many countries showed that a multi-rate GST system:
  - a. Subsidises the consumption of the higher-income groups more;
  - b. Distorts consumption and production, and
  - c. Raises administration and compliance costs for businesses.

83. Exempting or reducing GST on certain goods and services also does not mean that these tax savings will be passed to the consumer. When France reduced the VAT rate on restaurants by 14 percentage points (a very significant reduction from 19.6% to 5.5%) in 2009, suppliers absorbed most of the savings and prices hardly fell. And this is a typical story.
84. There's also the legal uncertainty created by multi-rate GST system. In UK, there are endless disputes on the classification of food products. Recently the courts had to decide on whether smoothies were beverages or liquid food in order to determine its VAT rate. There are many other examples, by the way. The Courts in Belgium had to decide on whether shops that show pornographic films could be classified as cinemas, or cultural venues and hence have a lower GST rate. It went all the way to the European Court of Justice before it was fortunately settled not in favour of the pornographic shops. That may sound funny but there's a whole set of similar examples that have arisen. There is great legal uncertainty as to what to classify as essential, and what is not.
85. Switzerland recently had a public consultation, and the result was that most people preferred moving from their multi-rate GST system to a single-rate GST.
86. A major study in November last year in the UK, led by a Nobel Laureate Sir James Mirrlees. The study concluded which that the poor would be much better supported if the government were to remove the lower tiers of VAT on various items that the poor consumed, and instead help the poor more directly instead. Ending these reduced rates would mean more government revenues, which could be completely returned to the

bottom 30% via means-tested benefits, with another £11b to spare. So they could completely offset the increased VAT to be paid by the poor by raising means-tested benefits, plus have an extra eleven billion pounds to spare, which could also be used to help the poor. The Mirrlees study concluded that the UK tax system was “costly and inequitable.”

87. MP Low Thia Khiang’s proposals have precisely this drawback – they would be costly and inequitable. They would mean that the better-off in society pay less taxes, leaving us with less resources to help the lower-income groups.
  - a. As MPs Christopher de Souza and Koo Tsai Kee have also asked, who exactly Mr Low is trying to help when he proposes to cut the GST or exempt some items from GST?

### **Foreign domestic worker levies**

88. The same point applies to the foreign domestic worker levies, which a few MPs have raised. The bulk of the levies are borne by higher-income households. Removing or lowering it will benefit them more than anyone else. It is not that they are the only ones hiring maids, but the bulk of the levies are borne by the higher income households. The levy helps to control the growth of the foreign domestic worker population, which is a large population even compared to Hong Kong on a per capita basis. But we provide targeted help where it is needed, particularly for those who care for elderly or young children.

# Progressive Fiscal System that Can Meet Future Needs

## An efficient and fair system

89. GST is part and parcel of an overall system of taxes and transfers that is **efficient and equitable**. The system has three major features.
- a. First, the overall tax burden is one of the lowest in the world.
    - i. The total taxes paid by a Singaporean are on average about two-thirds that paid in the United States. You have to bear in mind that the US has somewhat lower taxes than most European countries. So taxes in Singapore are in fact significantly lower than that paid in most developed countries.
  - b. Second, the system is pro-growth. Income taxes are low and the majority of the workforce doesn't pay income taxes, so that they reward effort, enterprise and the constant urge to move up.
  - c. Third, the system is fair. Taking all our taxes together with the transfers that we make to the population, the overall system is highly progressive.
    - i. That means that those who are well-off pay the bulk of the taxes, and the low and middle income groups receive the bulk of the benefits.

- ii. For the lower income groups, the permanent transfers they receive (leaving aside special transfers) significantly exceed the total taxes they pay.

90. I will take you through Chart 8. If we just look at the second decile first, which are those between the 10th to 20th percentile of incomes,

- a. They pay GST - that is a significant component of the total taxes they pay. But the permanent transfers that they receive through Workfare and other schemes are far in excess of the GST they pay.
- b. If we add up all the taxes they pay, that is also significantly lower than all the transfers they receive.

91. I have shown earlier what happened after we introduced the GST but my earlier chart had to do with the increases after we increased GST in 2007. It shows that the increased GST paid was more than offset by increased benefits. Chart 8 however looks at the total picture, not just the increases in recent years but what the total picture is if you take a snapshot now: total benefits received are far in excess of total taxes paid including GST for the lower income group.

92. For the upper income group, we choose the 8th decile as an example. (The picture will be even stronger if I choose the topmost decile.) They pay much higher taxes than the benefits they receive.

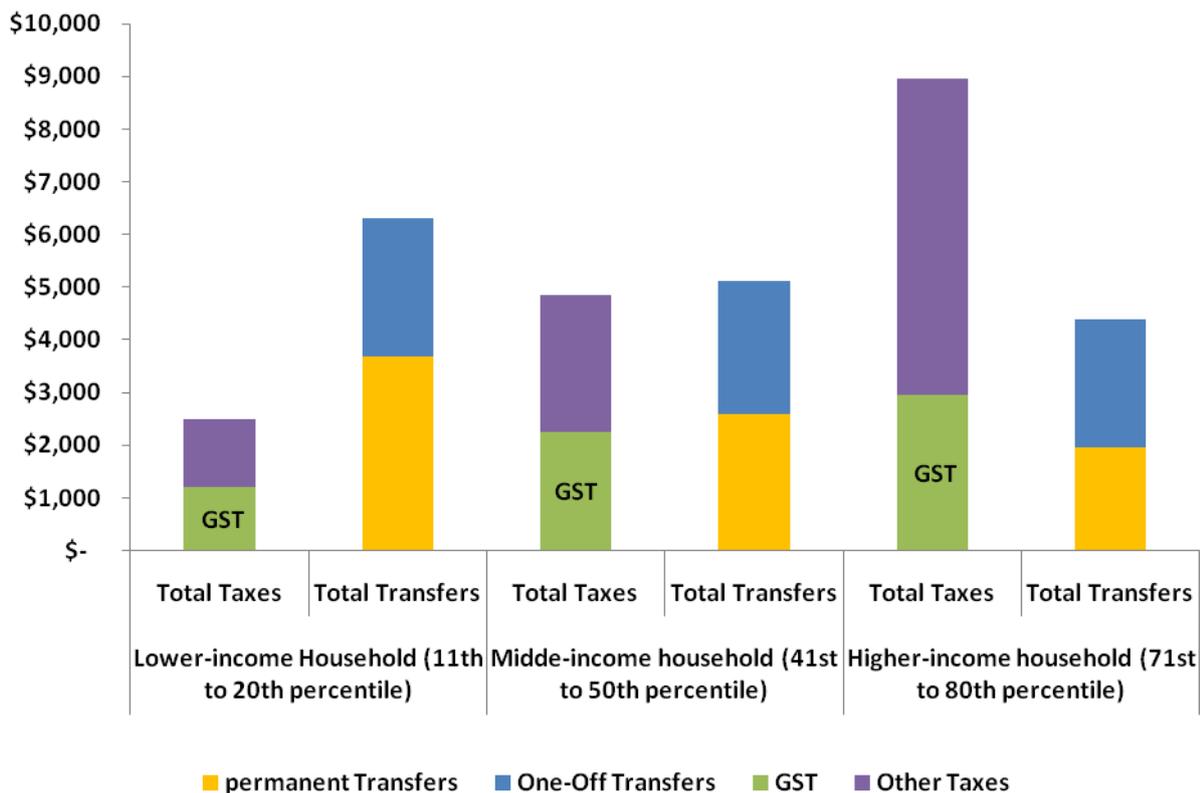
- a. They pay more GST than everyone else, they also pay more income taxes, property taxes and other indirect taxes than everyone else. And they receive less benefits.

93. So it is a highly progressive system. A fair and efficient fiscal system does not and should not mean that every tax is progressive. It means

that taken together, our system of taxes and transfers should provide significantly more benefits for the lower and middle income groups. It should do so whilst rewarding work and ensuring income growth across the board remains healthy, in other words, ensuring that we retain a dynamic economy and society.

94. The GST on its own is a flat tax, not a progressive tax, but what we have introduced is not just the GST but the ‘GST plus’. In other words, the GST plus Workfare and other schemes to benefit the lower income groups. Taken together, they make up a highly progressive system.

**Chart 8: Average Transfers Received and Taxes Paid per Household**



Source: MOF Estimates

Note:  
 Figures refer to average annual taxes paid and transfers received by an average Singaporean household over the period 2008 - 2011.

## Sound fiscal system saw us through the crisis

95. We were able to arrive at this fair and efficient system because of two important changes that we have made in recent years:
- a. First as I have mentioned, we increased the GST, from 5% to 7% in 2007;
  - b. Second, we implemented the new Net Investment Returns framework or NIR framework in 2009. We made the constitutional changes in 2008, implemented in 2009.
96. We were fortunate that we did this in time, ahead of the financial and economic crisis in 2008 and 2009.
- a. In fact, many members including MP Josephine Teo and others have contrasted our situation now, through the crisis and now, with what's happened with most developed countries. Their public finances are under severe strain. And their people will have to go through wrenching adjustments in the coming decade.
  - b. Many countries had to borrow and spend heavily just to try and stay afloat during the crisis, and had to cut back on important programmes for their long term future.
97. We raised the GST when we were not under strain. We didn't wait till we were under strain to raise the GST. That allowed us first, to provide a strong package of offsets to help the lower and middle income groups, full offsets, for several years.
98. Second, by doing it in time (not that we had perfect foresight and knew the crisis was coming), we were able to intervene forcefully during the crisis to help our businesses and workers and avoided an even larger

draw on past reserves. In particular, we did it in time, we were able to address needs during the crisis whilst retaining our focus on the long term:

- a. We were unique in being able to cut corporate income tax rate during the crisis to enhance our competitiveness, and
- b. Make substantial investments for the future, building public infrastructure, rejuvenating our neighbourhoods, implementing sustainable development initiatives, ramping up the quality and capacity of our educational institutions, boosting healthcare provisions.
- c. Kept our focus on the long term whilst addressing short term crisis needs.

## **NIR as a source of revenue**

99. Our second major move was to revise our NIR framework. It is an important part of our revenues, the NIR. Our net investment returns now provide us an income stream of our budget of around 2% of GDP per year – significant part of our total revenues.

- a. Significant contrasts with the developed countries which each now have to spend a growing part of their annual budget just to service their debts. In other words, they have to take away from what they get in tax monies, a growing amount just to service their debts.
  - i. The UK is spending already 3% of GDP to service their government debts;
  - ii. Japan is spending more than 4% of GDP; and

- iii. The US, by the end of this decade, is projected to spend more than 3% of GDP taken out of tax dollars to service their debts.
  - b. So we are in a very different situation. How do we sustain this revenue stream of about 2% of GDP? To do it, we have to preserve our reserves and ensure that they grow in line with our economy.
  - c. This is why when we amended the Constitution in 2008, we limited the Government to spending no more than 50% of the long-term expected real returns on the reserves. The remaining returns accrue to the reserves, and we can keep growing our reserves.
- 100. It is also why the GIC and Temasek have to keep their focus on the long-term. Their objective is to achieve good long term investment returns, across economic cycles.
  - a. MPs Ong Seh Hong and Liang Eng Hwa have asked how our reserves have performed, having gone through this crisis.
  - b. Both GIC and Temasek saw significant drops in their portfolio values during the crisis in line with the decline in the markets, and similar to other large funds. They have both recovered their pre-crisis values, and have done creditably relative to comparable market indices.

## Sufficient revenue for the future

101. MP Jessica Tan has asked a very fundamental question which is whether our revenues will be sufficient to meet our increasing expenditure needs in the future.
102. The two major changes that we made to our revenue structure in recent years, raising the GST to 7% and implementing the NIR framework, were in fact aimed at meeting our growing expenditure needs in the future.
103. They were not to plug a short-term gap in revenues. They were aimed at:
  - a. Allowing us to build new capabilities and infrastructure for Singapore's future - in education and training, health and long-term care, transport, housing and neighbourhood rejuvenation; and
  - b. Allowing us to intervene decisively to help the lower income groups through Workfare and other means.
104. Our expenditures are increasing.
  - a. Expenditures were around 14.5% of GDP in the last five years (from 2006 to 2011). (That excludes special transfers.)
  - b. In fact, by the last two years, expenditures had increased to about 16% of GDP.
  - c. And is expected to go up further to about 16.5% of GDP over the next five years, reflecting the major investments that we are

making for our future. So from 14.5% over the last 5 years to 16.5% over the next 5 years, a significant 2% of GDP increase.

105. As a result of the changes we have already made in our revenue structure, we will be able to fund these projected expenditures over the next five years.
- a. Our overall revenues have increased from around 15% of GDP before we made the changes to around 17% of GDP currently. We expect to sustain our revenue at this level over the medium term.

### Specific questions on expenditures

106. MP Amy Khor has asked if we should be spending more on healthcare.
- a. Indeed, we expect to invest considerably more in healthcare in the next few years.
    - i. We are expanding both the acute and step-down care sectors, which Minister Khaw Boon Wan will elaborate on at the COS.
    - ii. We have also provided in this budget, a significant top-up to Medifund, to ensure that the needy are well taken care of.
  - b. The Singapore system, because Dr Amy Khor has compared us with some other countries, at face value, it appears that we are spending significantly less. But the Singapore system is one that is well-recognised, is one that delivers superior healthcare outcomes per dollar spent by tax payers and by patients.

- i. Our national expenditure on healthcare, that is both Government spending and patients' own spending. Our national expenditure on healthcare is about 4% of GDP, less than the OECD countries' average of 9%, but we achieve better outcomes than most.
  - ii. On a whole range of indicators – infant mortality, life expectancy, cancer deaths and so on.
  - iii. Today, two-thirds of surgeries in our hospitals are day surgeries, which cut down significantly on expensive hospital stays.
  - iv. And most fundamentally, our 3M framework encourages Singaporeans to take personal responsibility for maintaining a healthy lifestyle.
- c. So when you look at it all together, it allows us to limit the use of tax dollars as well as patients' dollars, while achieving superior outcomes. Minister Khaw Boon Wan will be elaborating on this at the COS.

107. MP Ong Ah Heng had asked if we should spend more on MHA's budget, and highlighted the need for adequate counter-terrorism resources.

- a. I can assure Mr Ong that we are providing adequate funding for counter-terrorism efforts. However MHA's budget is not the only one involved, as MINDEF, Ministry of Transport and MTI too have set aside significant resources annually for our counter-terrorism initiatives.

108. MP Fatimah Lateef and Lee Bee Wah and NMP Joscelin Yeo have likewise asked about sports and MCYS will be addressing this during the COS. But I just want to add that expenditure on sports (both from the Government budget and Tote Board), has in fact increased significantly in recent years, and this is without taking into account the YOG. Beyond our expenditure in sports, the overall MCYS's budget too has increased significantly, and I am mentioning this because there is some misperception coming out of one or two charts that were produced in the media, which showed a drop in MCYS's budget this year compared to last year.
109. Our overall MCYS budget has increased significantly over the years. Over the last five years, the budget has increased on average by 13% per year. So the reduction in the budget in Fiscal Year 11 compared to last year is simply because we are not holding another YOG this year, at least Minister Vivian hasn't told us we are.
110. Finally, GST and income taxes. MP Low Thia Kiang had asked a question on this. He had noted that GST as a percentage of total tax revenue had increased from Fiscal Year 05 to Fiscal Year 11. However, direct taxes, specifically personal income taxes, had not gone down, as a share of personal tax revenue.
111. This is no surprise because we haven't cut PIT rates. We only cut Personal Income Tax rates this year, and in the meantime, income growth has been rapid, so Personal Income Tax collections have naturally increased. No cuts in tax rates but high income growth, so Personal Income Tax collections have increased.
112. What we did cut, was Corporate Income Tax rates effective from Year of Assessment 2010, and indeed, Corporate Income Tax has gone

down as a percentage of total tax revenue. So if you add together our direct taxes, our Income Taxes; Corporate and Personal Income Taxes; their share of tax revenues has gone down, from 41.9% in 2005 to 41.5% now (see Table 1). Strong income growth has helped to bolster them as well.

**Table 1: PIT, CIT and GST as a percentage of Tax Revenue in FY2005 and FY2011**

	<b>FY2005</b>	<b>FY2011</b>
<b>CIT</b>	<b>28.6%</b>	<b>25.4%</b>
<b>PIT</b>	<b>13.3%</b>	<b>16.1%</b>
<b>CIT+PIT</b>	<b>41.9%</b>	<b>41.5%</b>
<b>GST</b>	<b>14.9%</b>	<b>19.4%</b>

## **Conclusion**

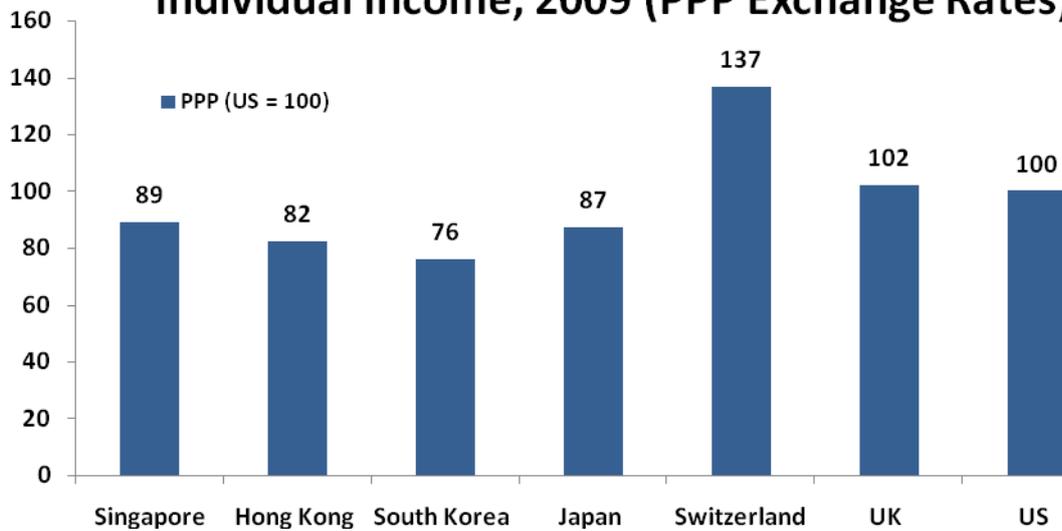
### **An inclusive society**

113. Mr Speaker Sir, if I can now conclude.
114. With the point as several members have emphasised, which is that the Government cannot build an inclusive society on its own. An inclusive society is about keeping our community spirit alive and about all Singaporeans participating actively in their communities and taking responsibility for each other. That is indeed why a key part of the Government's effort is to put aside resources to support the voluntary sector, our School Advisory Committees, our SPED schools, and to foster a culture of philanthropy.

115. An inclusive society is about everyone taking responsibility. It's about the Government partnering with many good people and groups, to make this a truly caring society. And it is about each of us as individuals taking responsibility to keep improving our own skills and to look after our families as best as we can. Like the resident that Miss Penny Low had cited - a lady that refused all financial help from her and only wanted help to obtain a license to sell ice cream, so that she could remain independent and look after her family. Or the young man whom Sam Tan got to know, whose mother gave him the courage to live out his dreams. As MP Zainul Abidin Rasheed put it a short while ago, 三分天注定, 七分靠打拼 (in Hokkien) - [Translated directly in English: 30% is decided by the heavens, 70% depends on hard work].
116. It is this spirit of personal and collective responsibility that will enable us, with our hands, our wits and our hearts, to make this a first-rate developed country.

## Annex 1

### International Comparisons of Median Individual Income, 2009 (PPP Exchange Rates)

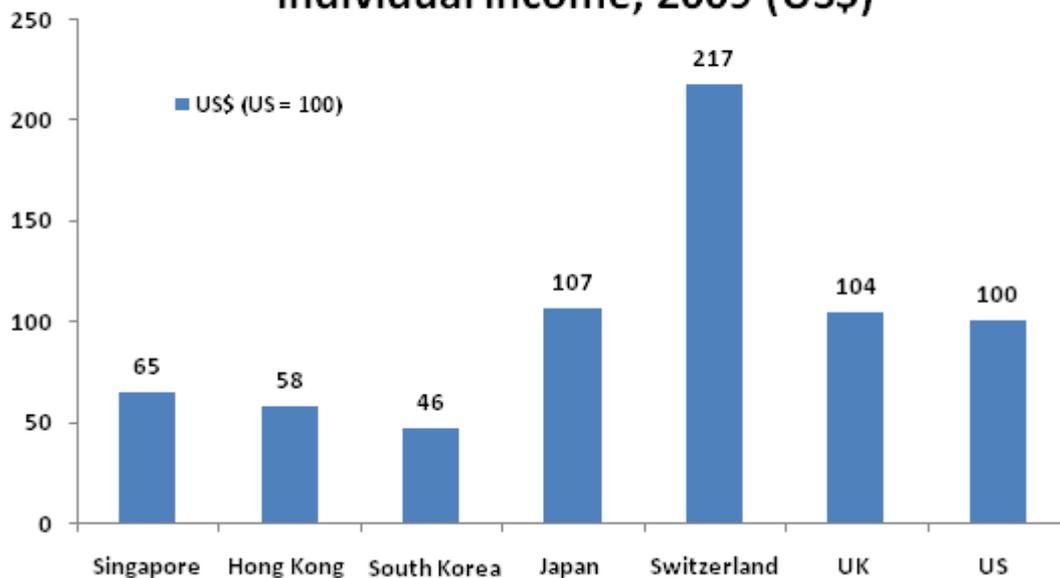


Source: Based on data from official sources

Note:

1. As far as possible, common definitions are used to facilitate comparability of data internationally.
2. PPP exchange rates as published by the IMF.

### International Comparisons of Median Individual Income, 2009 (US\$)



Source: Based on data from official sources

Note:

As far as possible, common definitions are used to facilitate comparability of data internationally. Income data is based on FT and PT employed residents, except for Japan and Switzerland which is based on FT employed residents only.

Market exchange rates as published by the IMF.

## **ANNEX 2**

### **2011 BUDGET DEBATE ROUND-UP SPEECH**

#### **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.

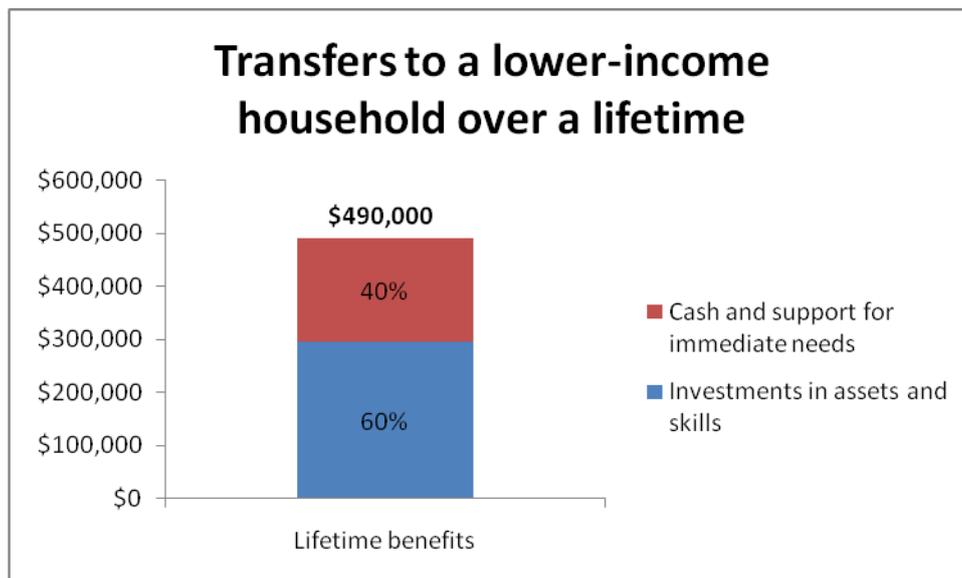
**For the purposes of estimating lifetime benefits, we consider an illustrative young family within the bottom 20% of incomes:**

- 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, housing grants etc) totalling about **\$490,000** in real terms (2011 prices). This is more than half of the couple's expected lifetime income (in 2011 prices). See Appendix 1 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 transfers<sup>1</sup>. 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 generally have balances below the \$60,000 cap, benefit more.

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<sup>1</sup> Examples of such discretionary transfers over the last ten years include Utilities-Save rebates, Service & Conservancy Charges rebates, Growth Dividends, Workfare special payments, top-ups to CPF accounts and Post-Secondary Education Accounts, Opportunity Fund top-ups and GST Credits. Regular WIS payments and other ongoing subsidy and grant schemes are not discretionary transfers.

- The contribution of government grants (CPF 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 4.2% per annum, or 2.6% 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 to buy a resale flat. The appreciation in the value of this \$80,000 contribution is however not included in the estimated transfers above.

**List of transfers that the family receives**

**Investments in Skills and Assets**

<b><i>Childcare</i></b>	
<p>The family receives childcare and student care subsidies, as well as Government matching for their savings in their Child Development Accounts.</p>	<p><b><u>Schemes</u></b></p> <ul style="list-style-type: none"> <li>• Baby Bonus scheme (matching government contributions to the Child Development Account)</li> <li>• Centre-based Financial Assistance for Childcare (CFAC)</li> <li>• Centre-Based Childcare Subsidies</li> <li>• Student Care Fee Assistance Scheme (in Primary School)</li> </ul>
<b><i>Education</i></b>	
<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><b><u>Schemes</u></b></p> <ul style="list-style-type: none"> <li>• MOE Financial Assistance Scheme</li> <li>• CDC-CCC NITEC bursary</li> <li>• MOE Polytechnic bursary</li> <li>• Interest Subsidy for Tuition Fee Loan Scheme (Polytechnic)</li> <li>• Edusave top-ups; and occasional Edusave Merit Bursaries (that children from the bottom 50% of households by income are eligible for)</li> <li>• NEU PC (Personal Computer) Plus Programme</li> </ul>

	<p>The subsidies that all Singaporean students enjoy, that result from government spending on education, are not included in the calculation.</p>
<b><i>Continuing Education and Training</i></b>	
<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 Support (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"> <li>• WTS Course Fee Subsidies</li> <li>• WTS Training Commitment Award</li> <li>• National Service Recognition Award (PSEA component)</li> </ul>
<b><i>Housing</i></b>	
<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"> <li>• CPF Housing Grant for resale flats (including higher-tier Family Grant)</li> <li>• Additional CPF Housing Grant for lower-income families</li> <li>• Interest subsidy for HDB concessionary loan rate</li> <li>• Home Improvement Programme</li> </ul> <p>The family does not qualify for the Special Housing Grant that was introduced in 2011, as they buy a resale flat.</p>

<b>Retirement</b>	
<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"> <li>• WIS (CPF component)</li> <li>• Lease Buyback Scheme (CPF component)</li> <li>• National Service Recognition Award (CPF component)</li> </ul>

### Cash and Support for Immediate Needs

<b>Healthcare</b>	
<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"> <li>• Inpatient Subsidies</li> <li>• Specialist Outpatient Clinic (SOC) Subsidies</li> <li>• Nursing Home Subsidies (4 years) and Day Rehabilitation Subsidies – both for the wife</li> <li>• Medifund subsidies</li> <li>• Programmes to help the elderly immobile</li> </ul> <p>Polyclinic subsidies are not included in the calculation of benefits.</p>

<b><i>Marriage and Parenthood</i></b>	
<p>When the couple has children, they receive the Baby Bonus cash incentive. They also benefit from Government-paid childcare and maternity leave.</p>	<p><u><i>Schemes</i></u></p> <ul style="list-style-type: none"> <li>• Baby Bonus scheme (cash component)</li> <li>• Government-Paid Maternity Leave</li> <li>• Government-Paid Childcare Leave</li> </ul>
<b><i>Cash Benefits</i></b>	
<p>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.</p>	<p><u><i>Schemes</i></u></p> <ul style="list-style-type: none"> <li>• Work Support Scheme</li> <li>• CCC ComCare Fund</li> <li>• WIS (cash component)</li> <li>• Lease Buyback Scheme (cash grant)</li> </ul>