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Monetizing housing for retirement in Singapore

BY Sock-Yong PHANG. POSTED OCTOBER 14, 2015

Asia Pathways: The blog of the Asian Development Bank Institute

<http://www.asiapathways-adbi.org/2015/10/monetizing-housing-for-retirement-in-singapore/>

Aging homeowners

In 2015, the value of housing assets owned by households in Singapore at the aggregate level was 55% of their net worth.¹ Ninety percent of Singapore households owned their homes, meaning that almost all households had wealth saved in housing, and households' housing wealth was 2.1 times that of the country's gross domestic product. In addition, Singapore is facing an aging population. The resident old age support ratio, defined as the number of persons aged 20–64 per person aged 65 years and over, decreased from 9.0 in 2000 to 5.7 in 2015.² Against this backdrop of asset-rich and aging households, an increasingly common trend in East Asia, Singapore is exploring ways to enable homeowners to unlock equity from their homes and improve living standards for elderly households.

Reverse mortgages failed to take off

The private sector in Singapore initially provided households an option for monetizing their housing wealth. NTUC Income, an insurance firm, introduced a reverse mortgage scheme for private housing homeowners in 1997. A reverse mortgage allows homeowners to borrow money using their home equity as collateral. In 2006, OCBC Bank joined NTUC Income in offering reverse mortgages. However, both institutions discontinued their schemes by 2009 due to a lack of demand from borrowers. Among the reasons for the low demand were: i) conditions for borrowers in the reverse mortgage schemes were fairly complicated, and ii) lenders wanted properties with long remaining leases as collateral, so that in a leasehold setting, fewer households were eligible to apply for the reverse mortgage.

Government buys back tail end of lease

The Housing and Development Board (HDB) provides public housing for sale in Singapore. In 2014, 81% of residents lived in public housing, making public housing the dominant mode of accommodation in Singapore.³ HDB home buyers receive public housing on 99-year leases with the property reverting to the government upon lease expiry. The HDB introduced the Lease Buyback Scheme (LBS) in 2009 marking the entry of the government in providing homeowners an option for monetizing their housing wealth. Under the LBS, households sell a tail-end portion of

their property lease back to the HDB. To be eligible for the LBS, homeowners have to be of retirement age, live in HDB flats with three or fewer rooms, and have a gross monthly household income of S\$10,000 or less. Homeowners receive a bonus of S\$20,000 for participating in the LBS.

In April 2015, the enhanced LBS came into force, which extended the eligibility for the LBS to households with a gross monthly income of up to S\$12,000 and those living in four-room HDB flats. Three-room HDB flat owners still receive S\$20,000 for participating in the LBS, while four-room HDB flat owners receive a bonus of S\$10,000. In addition, the enhanced LBS allows households greater flexibility in choosing how much of their home lease they wish to retain. According to a Channel NewsAsia report on 12 June 2015,⁴ the enhanced LBS saw 450 new applications in the April–June 2015 period as newly eligible households looked to monetize their housing wealth.

Singapore's compulsory savings plan, the Central Provident Fund (CPF), is the primary policy conduit to encourage homeownership as well as support elderly persons in Singapore. The scheme is meant to ensure households have enough savings for mortgage payments when young as well as sufficient resources for retirement. The LBS is targeted toward increasing the living standards of elderly households and works in tandem with the CPF. Money freed up from housing through the LBS is credited to the homeowner's CPF account. Homeowners can choose to withdraw funds from the LBS that are in excess of the target retirement balance. Elderly CPF members receive lifelong monthly payouts based on their choice of annuity purchased using their CPF retirement balances.⁵

The following example shows how the LBS scheme works. Consider a family who bought a HDB apartment in 1990 on a 99-year lease. In 2015, the remaining lease on the property is 74 years. The family can retain 30 more years of the lease and sell the remaining 44 years of the lease to the HDB through the lease buyback scheme. The HDB determines the value of the remaining lease based on the property's market value estimate and credits the amount to the family's CPF account. Similar to a reverse mortgage, the LBS enables the elderly to remain in their current homes and communities while unlocking their home equity.

Introducing flexibility and providing other options

Peace of mind is an important feature of the LBS. The HDB reassures homeowners considering taking up the LBS by ensuring comfortable accommodation for them should they outlive the lease they have retained.⁶ In addition, homeowners can also

choose to terminate the lease early and return their flat to the HDB. In such a case, they receive the appropriate refund from their remaining lease.

Homeowners also have access to other options for monetizing housing:

- The HDB provides a Silver Housing Bonus of up to S\$20,000 to elderly households that sell their current flat and buy a smaller one.
- A flexi lease scheme with lease periods ranging from 15 to 45 years has also been recently introduced for two-room HDB flats.
- Households can also sublet their flats or rooms in their flats to earn additional income.

Singapore is progressively enabling elderly homeowners to monetize their housing assets. New schemes are being explored and existing ones adjusted to meet the context of a leasehold real estate environment and the changing needs of elderly households. Homeowners can use these schemes together with their CPF savings-funded annuity schemes to secure their standard of living in retirement.

¹ The ratio of net housing wealth to net household worth was 40%. These figures are for resident households in Q2 2015 and are derived from household sector balance sheet data compiled by the Singapore Department of Statistics, available [here](#).

² Singapore Department of Statistics Q2 2015 data.

³ Housing and Development Board Annual Report 2014.

⁴ “Enhanced Lease Buyback Scheme popular with 4-room flat owners: HDB”, Channel NewsAsia, 12 June 2015.

⁵ [CPF Retirement Scheme \(retrieved September 2015\)](#).

⁶ [Housing and Development Board, Lease Buyback Scheme Overview](#) (retrieved September 2015).