

REPORT OF THE COST REVIEW COMMITTEE 1996

EXECUTIVE SUMMARY

A phenomenal rise in costs?

1. The Cost Review Committee (CRC) was reconvened to examine allegations made by the Singapore Democratic Party (SDP) and Pertubuhan Kebangsaan Melayu Singapura (PKMS) that the rise in the cost of living (COL) in Singapore was "no less than phenomenal" and that this was hidden from the public through a "statistical massage of the numbers", namely the Consumer Price Index (CPI).

2. CRC members met with SDP-PKMS representatives to clarify the nature of, and grounds for, their allegations. But the discussion proved futile. The representatives from the parties were vague, evasive and refused to give straight answers to Committee members' questions. The Committee thus proceeded to examine the SDP-PKMS' assertions independently. It heard representations from senior officials from government departments, representatives from private organisations and academics.

3. After reviewing the evidence, the Committee concluded that the SDP-PKMS claim that rising costs accounted for most, if not all, of the 76% rise in household spending between 1987/88 and 1992/93 was false. Household spending has risen for several reasons. Price increases was just one of them. Estimates from the Department of Statistics showed that price rises accounted for 14% points of the rise in spending. Other factors thus explained the remaining 62% point rise, CRC members found (*see below*).

4. As for the allegation that Singapore's CPI had been "statistically massaged", the Committee reviewed the method used to compile the CPI and found it to be sound and in line with international practice. It therefore rejected the allegation by the SDP-PKMS as utterly baseless. The CRC took the view that the allegation was a serious one which stood to tarnish not only the professional reputation of the Department of Statistics, but also Singapore's standing as a country where the business of government is taken seriously and is not open to manipulation by corrupt officials for personal, political or financial gain. Despite the seriousness of their allegation, the SDP-PKMS offered no evidence to back up the claim, but claimed to distinguish between "statistical massage" and "massage of statistics". The CRC thus considers their actions a matter of regret.

5. The Committee noted that the CPI is a useful measure of the general rise in prices here. It cannot be simply dismissed as being "nonsensical". What is needed is a proper understanding of what the CPI covers and how the index is calculated, as well as the limitations of its use. While the CPI is a broad aggregate measure and hence may not reflect the situation of each individual household, there are many more specific indices which monitor closely the rise in the costs of, say, housing here. These are published regularly. The suggestion that the CPI seeks not to give an accurate picture of cost rises is therefore without basis.

Why the rise in Singaporeans' spending?

6. *Price Increases Of Goods & Services.* Data provided by Emporium Holdings (EH) and NTUC FairPrice, two of the largest retailers in Singapore, showed that the prices of basic food and non-food items had remained fairly stable. Compared to five years ago, prices of food items at EH had increased by an average of 4.9%. On the other hand, prices of electrical appliances and housewares fell by 12.5% and 9.5% respectively over the last 3 years.

7. Another reason for the higher costs and spending was the rise in the cost of services, such as in hospitals, as well as those of barbers, tailors and hawkers. This was because wages, which rose every year, form a major part of the final cost of these services. Those who provided these services could only raise their productivity by so much. Barbers could only cut so many heads of hair a day, while hawkers could only fry so many plates of noodles. They therefore raised their charges to keep up with the general rise in standards of living and wages that other Singaporeans were enjoying. This seemed only fair. However, even these sensitive price rises were generally less than average wage increases enjoyed by workers.

8. *Buying Better Quality Goods.* The two retailers also reported a clear pattern of consumers buying more better quality and higher priced items, as well as increased consumption of luxury goods. For example, more Singaporeans are now consuming top-grade fragrant rice, airflown fruits and top-of-the-range ice-cream, even though cheaper alternatives were available. This demand for more costly goods had pushed up household spending.

9. The Committee felt that there was room for the Consumers' Association of Singapore (CASE) to take a more pro-active role in consumer education to help Singaporeans shop wisely and keep their expenses down. It called on CASE to hold yearly campaigns to do so. In this regard, the CRC supported the Government's decision to help build up a \$10 million endowment fund for CASE through a dollar-for-dollar matching grant.

10. *Middle-Age Squeeze.* The Committee noted that between 1990 and 1995, more than 80,000 households entered the middle-aged stage of their life-cycles, in their 40s and 50s, when their earnings and spending rose. They had more financial commitments, having to pay for their children's and elderly parents' expenses, as well as for bigger houses and cars. These added to their living expenses. Younger Singaporeans were also setting up households and equipping their new homes with the usual range of household goods at an earlier age. This added to their expenses.

11. These factors, the CRC concluded, provided a better account for the rise in spending over the years.

12. Having addressed the issues raised by the SDP-PKMS, the CRC turned its attention to the four areas of concern it had noted in 1992/93. Of these, two were currently of particular concern: health care costs and housing prices.

Health care

13. Singaporeans worry that health costs have risen sharply and might not be affordable, or accessible, to them should a serious illness strike. Some worry if they will be able to pay their hospital bills, while others find that the outpatient tests they are sent for also add up to sizeable amounts.

14. Data from the Ministry of Health, however, showed that hospital charges had risen by an average of 4.4% a year between 1992 and 1995, lower than the 7.1% a year rise in workers' salaries over the same period.

15. But Singaporeans were incurring larger medical bills as a growing number of them are opting for higher class wards in public hospitals, which are not subsidised by as much, or even going to unsubsidised private health care.

16. In addition, although Singapore has a three-tier medical safety net, comprising the 3 Ms -- Medisave, MediShield and Medifund -- many Singaporeans are unfamiliar with how these work. Medisave helps Singaporeans save for their health care needs, while MediShield offers insurance protection against a serious illness. Medifund helps the needy pay their medical bills. Almost all of those who turned to Medifund in recent years were given the help they needed. This honours the Prime Minister's pledge that no Singaporean would be denied the treatment he needed because of a lack of funds.

17. As the system was relatively new, many Singaporeans were unaware how they might benefit from it. As many as one in four older Singaporeans (aged 61 ~70 years) had opted not to have MediShield coverage, even though they were most likely to need it, compared with younger Singaporeans. A large proportion of Medisave members had also not opted to have their dependants covered by MediShield, even though they could use their Medisave funds to pay the premiums. These were matters of concern to the Committee.

18. In view of the above, the CRC felt that greater publicity should be given for the 3Ms, so that more Singaporeans would be aware of the system in place to help and protect them. This would allay their fears that they would not be able to pay their medical bills.

19. The Committee noted that there are specialty procedures for five illnesses for which the lowest ward class was B2, due to a need to concentrate the high level of specialised staff and advanced equipment in certain areas. While patients unable to afford B2 ward charges could apply to pay class C ward rates or a waiver of

these fees, the Committee felt that this could still lead to hardship for those who did not qualify. The CRC therefore recommends a review of this administrative arrangement. It suggests that while some treatments might be concentrated in certain areas initially, these should be provided in all wards as they become more common. The Committee also felt that Government should ensure that C Class beds remain sufficiently available at public hospitals.

20. Several members also expressed concern that some hospital admission procedures gave patients the impression that the hospital system was bureaucratic and business-oriented, and that hospital staff lacked compassion. The Committee calls for a review of these procedures. A data sharing network would also help minimise the administrative procedures needed.

Housing

21. The cost of housing has been a major worry among the people. Rising property prices in recent years have caused some Singaporeans to fear that housing, including public housing, might move beyond their reach. This might prevent them from upgrading to bigger flats or to private properties. Or housing might become more costly for their children.

22. The CRC thus looked into this. The SDP-PKMS had alleged that HDB flat prices had risen by more than 100% between 1990 and 1994. Data from the HDB showed that prices did not rise as much. The prices for four-room Model A, five-room and Executive flats rose by about 5.4%, 10% and 11% a year respectively between 1992 and 1995.

23. The CRC sought to establish if public housing remained affordable despite the rise in prices. Several indicators showed that this was so. First, the majority of loans taken out for new HDB flats were fully serviced from the buyers' CPF. Second, more of those buying new flats were opting for the larger five-room and executive flats. Third, this was true even for younger first-time applicants. This showed that even these larger flats were within their reach financially. Indeed, more and more HDB households were living in bigger flats. Fourth, mortgage default rates had remained at very low levels. Finally, the proportion of monthly instalment payments to household income has remained a reasonable 20% to 26% over the last 5 years.

24. Furthermore, the Government has pledged to keep three-room and four-room HDB flats affordable to at least 90% and 70% of Singaporean households respectively. This means three-room flats will be priced such that 90% of households will be able to pay their HDB mortgage loan repayments using only their CPF contributions, without having to fork out cash. Four-room flats would be similarly priced to be affordable to 70% of Singaporean households.

25. This meant that if workers' wages did not rise, nor would prices of 3-room and 4-room flats. Hence, Singaporeans need not fear that these flats would move increasingly beyond their reach. But the Committee also felt that the policy could be refined. If costs did not go up, neither should prices. HDB should undertake to pass on cost savings to the people. In addition, the CRC felt that HDB should also control the rate of price increases for five-room flats to help meet Singaporeans' aspirations to upgrade. To make these HDB flats more affordable, avoid wastage and contain the cost of renovations, the CRC also recommends that HDB expand its programme of offering flat fittings on an optional basis.

26. The Committee also noted that HDB has implemented various measures to help more families, especially those from the lower-income groups, to buy their own flats. These include the sale of smaller 4-room flats, sale of 2-room and 3-room rental flats, and the sale of buy-back 3-room flats.

27. The Committee noted that the Government's long term plan was to raise the proportion of Singaporeans living in private housing from the present 14% to 25% in the year 2010. This would help address the strong desire among a section of the people to own private properties. The Committee also calls on the Government to facilitate the setting up of co-operatives which might build private properties. These would not aim to maximise profits, but enable Singaporeans to band together to build private properties at a lower cost, with savings passed back to buyers.

28. As for resale HDB flats, the Committee noted that the substantial increase in prices was due to a host of factors, such as strong economic growth and the liberalisation of HDB rules on the sale and financing for those

buying its flats. The Committee urged that any further liberalisation of the HDB resale flat market should not be undertaken without carefully considering its impact on prices.

29. The CRC also noted that the planned supply of housing units (public and private) would be more than sufficient to meet the projected demand. In the case of new HDB flats, applicants could select their flat within 1.75 years if they were not choosy and applied for 4-room flats in the North Zone.

Education

30. The CRC reviewed its study done in 1992/93 to update itself on the increases in the cost of education since then. It found that university tuition fee increases since 1993 have been moderate. Fee increases were raised gradually, in line with the CRC's 1993 recommendations.

31. But the Committee noted that the Government had not accepted its recommendation to keep government subsidies for university fees at 79% of recurrent expenditure, but intended to go ahead with its plan to reduce the subsidy rate to 75%. The CRC urges the Government to reconsider this, to help keep university fees down. It also calls, once again, for more scholarships, bursaries and study loans to be given out to help ensure that bright but needy students are not denied a chance to have a tertiary education simply because of a lack of funds.

32. The CRC noted that Government continued to subsidise education heavily, especially at the primary and secondary levels. School and miscellaneous fees for primary, secondary and pre-university students were unchanged between 1992 and 1995. This has enabled a higher proportion of each age cohort to enter higher education.

Transport

33. The CRC also updated its earlier study of transport costs in Singapore. It noted that, in approving bus and MRT fare revisions, the Public Transport Council (PTC) had taken into account its earlier recommendation that fare rises should be made in small steps. As a result, increases in MRT, bus and taxi fares over the period 1992 to 1995 have been modest, below the rise in workers' salaries.

34. In comparison, the rise in car prices over the same period has been much sharper, averaging 12% a year. This was due to strong demand for cars, which was fuelled by robust economic growth and a bullish stock market. In the first half of 1996, however, car prices fell by 2.6 %, compared with a year earlier. A quieter stock market and stricter car loan terms curbed demand.

35. The Committee notes that owning and operating a car in Singapore will continue to be expensive. This is an inevitable result of Singapore's limited land. It therefore welcomes the Government's recently announced plans to develop a world-class public transport system. It urges the Government to press ahead with these plans to make public transport as convenient as possible. It should also keep public transport affordable and continue to make fare adjustments in small steps from year to year.

The Poor

36. Having reviewed the cost rises in the four areas of most concern to Singaporeans, the CRC turned its attention to other issues related to the cost of living. It sought to draw a profile of the poor in Singapore to determine the impact of cost increases on them and what help they might need. The data studied showed that many among the lower-income families owned their own homes, and possessed a range of consumer durables. The rate of ownership of these was not far below the national average. Some of these assets could have been acquired with year-end bonuses or with assistance from friends and relatives. Other lower-income families could be living on their savings. These findings indicated that many of these households are poor only in relation to other Singaporeans who are better-off. Few of these families are destitute.

37. The Committee took the view that the high rates of home ownership meant that even this less well-off group had assets, worth \$100,000 or more for those who owned a three-room HDB flat. They had a stake in society and shared in Singapore's progress. Their flats were real assets. They could use the capital gains on it to upgrade to bigger flats. Or sell it and keep the cash if they chose to live with their children. For the elderly,

they might even take out a reverse mortgage to benefit from the capital gains.

38. The Ministry of Community Development also informed the CRC that there were many schemes to provide financial help, assistance for lower-income households to own their homes, as well as schemes to provide education and training to the lower-income households so that they and their children can upgrade themselves and improve their earning power. The CRC urged the Ministry to target its assistance on the bottom 1% of households, which it found to be most in need. It should also pay attention to the elderly poor, who form a large segment of the lowest 1% of households.

The Elderly

39. The CRC examined whether older Singaporeans would have enough CPF and other personal savings to support themselves in retirement. For retirees who wish to maintain their pre-retirement lifestyle, studies show that on average they require about two-thirds of their last drawn pay.

40. Based on the data it studied, the Committee concluded that the majority of those now aged 45 years and above would not have enough in their CPF funds alone to be financially independent in retirement. It noted that a CPF member with the Minimum Sum of \$45,000 invested in an annuity would receive about \$345 a month for about 20 years till the Minimum Sum is used up. However, this was not likely to be enough for many to maintain their pre-retirement lifestyle. In addition, 40% of those aged 55 and above were not even covered under the Minimum Sum Scheme in 1995. Furthermore, even if personal savings are included, a large group of older Singaporeans would not have enough savings to be financially independent when they retire. They would have to turn to their children or elsewhere for support. Younger Singaporeans are better placed, and many would have enough savings for their retirement. However, there will still be a large proportion of the elderly who will have to depend on their children for support.

41. To address the needs of the elderly, the Committee recommends that efforts be made to raise the retirement age beyond 60 years to help them earn a stream of income and save up for their eventual retirement. It also suggests that the "Singapore Allowance" for public sector pensioners be reviewed more regularly to help them cope with inflation. Reverse mortgages should be available to enable the elderly to benefit from the rise in the values of their properties over the years.

42. To provide for the health care needs of an ageing population, the Government should continue topping up the Medisave accounts of the elderly, when the government budget allows.

43. But ultimately, the Committee was of the view that despite these institutional measures, there was no substitute for the elderly being cared for by their families. The traditional family-support system had seen generations of Singaporeans through old age and would continue to do so if families were kept strong. Children with their own families should be encouraged to live with or near to their elderly parents. In this regard, the committee noted the \$50,000 housing grant which HDB extended to young couples purchasing resale flats near their parents' homes. It also supported the idea of building retirement villages within HDB estates mooted by the NTUC, which would allow the elderly to stay within the community.

Household debt

44. To address public concern that Singaporeans may be over-borrowing and were heavily in debt, the CRC examined the size and nature of loans taken out by households in recent years.

45. It noted that the level of household borrowings has risen in recent years. This is largely due to Singaporeans actively investing in properties. Housing loans accounted for about 67% of the total loans in 1995. The total amount borrowed to buy properties shot up from \$19 billion in 1990 to \$46 billion in 1995. The Committee expressed its concern about this large rise in borrowings. Members were worried that some families might be over-stretching their budgets in order to buy the largest property they could afford, leaving little left over for other needs and contingencies.

46. But the Ministry of Trade & Industry pointed out to the CRC that the current level of housing loans was not alarming, in relation to the market value of the properties, household incomes, or the savings of the borrowers. The quality of loans is good and monthly mortgage repayments have not been a burden to the

majority of borrowers.

47. However, the CRC urges Singaporeans to invest and borrow wisely and to live within their means. While property is a sound investment, Singaporeans should not over-commit themselves in the belief that property investment was a one-way bet. Property values can rise and fall, depending on factors such as economic growth, political stability and business sentiment. The Committee also welcomes the moves taken by the Government to rein in personal credit. These have helped moderate the rise in the growth of personal and car loans.

The Goods and Services Tax

48. The CRC studied the impact of GST on inflation and the cost of doing business after the tax was implemented. It noted that GST had caused only a one-off increase of less than 1% point in the CPI in 1994. Earlier concerns of spiralling inflation arising from profiteering had not been borne out. A survey commissioned by the Inland Revenue Authority of Singapore in early 1995 also showed that compliance costs of GST were moderate, comprising less than half a per cent of business revenues.

Housing costs and the CPI

49. The Committee sought to address the public concern that rapid property price increases in recent years had not been fully reflected in the CPI. It confirmed its earlier conclusions in 1992/93 that the Department of Statistics' approach was conceptually and methodologically sound, and the best available from a practical point of view. The method used was similar to that employed in many countries abroad and this provided a basis for international comparisons.

50. But Singapore's high home ownership rates makes it inappropriate to use the actual rents charged in the market as a measure of the cost of owner-occupied accommodation. Following the recommendation of the CRC in 1992/93, DOS had replaced its previous accommodation cost indicator for HDB owner-occupied flats with the Annual Assessed Value, which was obtained from the Inland Revenue Authority of Singapore on a quarterly basis. While this was an improvement on the old indicator, Committee members felt that it was still "on the low side". They therefore suggested that DOS examine how its current indicator for owner-occupied accommodation can be refined to even better reflect market conditions. Alternatively, DOS should consider publishing a separate CPI which excludes accommodation cost.

Conclusion

51. Having studied the rise in the cost of living, the CRC concluded that while prices have risen, the increases were by no means "phenomenal" in the four areas of concern it had identified in 1992/93. Between 1992 and 1995, annual increases in costs were 4.4% for hospital fee charges, less than 2% for public transport charges, and 3.7% for university fees, with most other school fees hardly changing at all. Housing costs rose more sharply, by 5.4% a year for four-room flats and 11% a year for executive apartments.

52. The Committee noted that despite the rises in costs, basic health care, public housing, public transport and education had remained within the reach of most Singaporeans. It found too that the Government had taken several steps to help moderate cost increases and keep basic services affordable. These included capping hospital revenues, setting up a three-tier medical safety net, giving a firm price pledge that three- and four-room flats will remain affordable, and offering Edusave scholarships to ensure that needy students were not deterred from attending independent schools. It has also called on CASE to review fee increases by government departments. The CRC believes that if more Singaporeans were aware of these measures, fewer would be alarmed about costs rising uncontrollably.

53. It therefore called for these measures to be given wider publicity, as well as efforts to help Singaporeans come to a better understanding about the nature, extent and causes of cost rises.

54. In addition, the CRC also made several recommendations to help Singaporeans cope with the rise in costs. These are:

- (a) *Health care:*

- (i) A major publicity effort be embarked on to explain to Singaporeans how best to make use of Singapore's three-tier medical safety net system.
- (ii) Elderly Singaporeans, in their 50s and 60s, who had opted-out of MediShield should be encouraged to reconsider. The Health Ministry should make the process for re-joining the system as simple as possible. Younger Medisave members should be told the benefits of signing up early with MediShield.
- (iii) The Government should consider extending MediShield coverage beyond 75 years after they had more experience with the recent extension of coverage from 70 to 75 years.
- (iv) The Government should consider introducing a scheme whereby members would make contributions into a personal MediShield endowment account during their working years, using their Medisave funds. This can be used by members to pay their MediShield premiums when they retired.
- (v) An opting-out system should be introduced to provide MediShield cover for the dependants of Medisave members.
- (vi) The Health Ministry should extend the use of Medisave funds to certain outpatient tests and treatments.
- (viii) The Government should publicise the revenue caps (set at 5% for the last 3 years) it had imposed to regulate the average revenue a hospital is allowed to collect for each day that a patient stays in hospital. This would allay public concerns that health care charges might rise rapidly.
- (viii) Less well-off patients who have to be admitted to Class B2 wards for the five specialty illnesses which are not available in C Class wards should be assured that they could apply for a remission or waiver if they could not afford the higher B2 ward rates. Furthermore, while the Committee accepts that some new and costly treatments and equipment might initially need to be concentrated in specific areas, it urges that these be extended to all wards as they become more widely used. The Government should also ensure that C Class beds are sufficiently available in public hospitals.
- (ix) Public hospitals should review their administrative procedures and cut out red-tape which might add to the distress of patients and their families. Computer data bases linking hospitals should be set up to minimise the need for patients having to be asked repeatedly for basic information.

(b) *Housing:*

- (i) Steps be taken to publicise the Government's price pledge on three-and four-room HDB flats, so as to allay concerns that public housing might move beyond Singaporeans' reach.
- (ii) Present efforts to help one- and two-room rental flat owners buy their flats be kept up. These should also be made more widely known so that more low-income families might benefit from them.
- (iii) Five-room flats to be subsidised at the existing levels. To keep these affordable, the HDB should take all possible steps to restrain its cost increases. These might include moderating the rate of improvements to levels that would not lead to rapid rises in costs. It should also extend its practice of providing additional items as options, which owners could decide if they could afford.
- (iv) Steps be taken to facilitate the setting up of housing co-operatives, which might build private

properties and pass on cost savings to buyers.

- (v) The Government should consider the impact on prices before agreeing to public requests for further liberalisation of its HDB rules and financing schemes.
- (vi) The Government should monitor closely the impact of its measures to cool the property market before taking any steps to increase the supply of housing units further. This is to prevent an inadvertent slump in property prices, which would not be in Singaporeans' interests.

(c) *Education:*

- (i) The CRC noted that Government had not accepted its recommendation to keep government subsidy at 79% of recurrent expenditure. It urges the Government to reconsider.
- (ii) It also repeated its call, first made in its 1993 report, for more scholarships, bursaries and loans to be made available so that bright but needy students are not denied a chance to gain from a tertiary education.

(d) *Transport:*

- (i) The CRC welcomes the Government's plans to develop a world-class public transport system and urges the Government to press on with them to make public transport here as convenient and affordable as possible.
- (ii) Fare increases for public transport should be kept moderate and be made in small steps.

(e) *The Poor:*

- (i) The HDB should keep up its efforts to help low-income families buy their own homes.
- (ii) Steps be taken by the Government to facilitate reverse mortgages on properties to provide the elderly this option.
- (iii) MCD and voluntary welfare groups should pay special attention to the needs of the elderly poor, who make up a sizeable proportion of the lowest-income households.
- (iv) Welfare agencies should also target their assistance on the 1% of households which are most in need of help. Efforts will have to be made to reach out to these groups so that they are aware of the help that is available.
- (v) The level of help given out to needy families under the Public Assistance scheme should be reviewed regularly to ensure that the assistance is adequate.
- (vi) Efforts be made by the Education Ministry and the community self-help groups to ensure that children from these low-income families remain in school and receive a proper education to help them break out of poverty.

(f) *The Elderly:*

- (i) Steps be taken to raise the retirement age beyond 60.
- (ii) The authorities take steps to facilitate reverse mortgages to enable Singaporeans to enjoy the capital appreciation on their properties, especially in their later years. This would help provide for their retirement needs.
- (iii) Whenever there are budget surpluses, the Government should continue to top up the

Medisave accounts of elderly Singaporeans so that they are better covered against health care expenses. Their children and families should also be encouraged to top up their accounts.

- (iv) The 'Singapore Allowance' for public sector pensioners should be revised more regularly in order to help them cope with inflation.

(g) *Household debt:*

- (i) The CRC urges Singaporeans to spend and borrow wisely. Financial prudence should be maintained, the Committee felt.
- (ii) The Committee also recommends that HDB reconsider its housing loan terms for elderly Singaporeans, who might have difficulties financing a 25-year loan, taking into consideration their age and financial status.

(h) *Housing costs and the CPI:*

- (i) DOS should refine further the indicator used to estimate the cost of owner-occupied accommodation in the CPI.
- (ii) Alternatively, DOS should publish a separate CPI excluding shelter cost.

(i) *CASE:*

- (i) CASE should organise annual "Buy Wisely" or "Stretch your \$" campaigns to educate consumers on the steps they can take to beat rising costs. To enable it to do so and perform its role as an independent consumer watchdog, Government funding for CASE should be raised. (This has been provided with the pledge by Government of dollar-for-dollar matching funds for its \$10 million endowment fund.)