Reduce amounts allowed for buying property

THREE forum experts dared to take a tilt at a sacred cow – the use of CPF funds to buy property.

Improve the Central Provident Fund scheme by lowering the current amounts of CPF money that can be used for this purpose, was their call to the Government.

Singaporeans have put too much of their nest egg in one basket – one that is illiquid, risky in terms of timing the market if it is to be turned into cash, and difficult to extract an income from, they said.

For the younger generation, using up too much CPF money for housing can spell problems later, warned Lee Kuan Yew School of Public Policy associate dean Donald Low, one of those who want the caps lowered, along with real estate expert Lam Su Kim of the National University of Singapore (NUS) and NUS Business School professor Joseph Cherian.

It may not be easy to convert property into cash when needed. Also, the selling price depends heavily on the market at that point, and housing prices may be volatile. This could come to a head if many decide to monetise their flats at the same time, which may happen with Singapore's ageing population.

Said economist Augustine Tan: "Asset appreciation is going to be very problematic in a very aged population. Who's going to buy your flats?"

Prof Lum tells insight: "People spend 30, 40 years building up this (property) asset and then wonder how to get money out of it."

Also, if people have spent much of their CPF funds on property, they will have low cash balances later. Nearly 20 per cent of younger Singaporeans' wages goes into their CPF Ordinary Accounts, with which they can buy flats. Only after they turn 51 does this proportion shrink markedly, with more CPF savings going into the accounts meant for retirement and health care.

For today's seniors, this can mean that they are sitting on a goldmine of valuable property, while not having enough cash for their daily needs. But they are reluctant to sell or lease out their houses for cash due to their emotional ties to their homes, or because they want to bequeath them to their children, says Prof Lum.

This is even though HDB flats are on 90-year leases, noted NUS' Prof Cherian at the forum.

But options for monetising flats tend not to be popular and have weaknesses. The Lease Buyback Scheme (LBS) lets the elderly sell part of their flat's lease back to the Housing Board, and they can keep living in it for the next 30 years.

"It's not for life," says Prof Cherian. "Although the Government says that they will take care of people if they live beyond that, I say, 'Put it in writing'."

"Tell people it will be for 30 years or until they die. If you start (the LBS) at 62, what if you live until 95? You don't want to find out you will be homeless at 92."

The HDB has also said that it may reintroduce reverse mortgages, which were phased out in 2008 after few people took them up. In this, flat owners use their home as security for a loan that is dispensed in regular cash payouts.

Prof Lum, however, says that says the Government has to price reverse mortgages carefully, as people may not take them up due to worries that they will have difficulty repaying the loan.

"If we're not careful about creating proper monetisation options, many households may not have an orderly exit from the market," she tells insight.

"If you don't want future generations to continually deal with this kind of risk, maybe we shouldn't allow so much CPF to be used on housing."

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