

Budget 2015

Building Our Future, Strengthening Social Security

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A. ECONOMIC PERFORMANCE

A.1. Madam Speaker, I beg to move, that Parliament approves the financial policy of the Government for the Financial Year 1st April 2015 to 31st March 2016.

FY 2014 Fiscal Position

A.2. Our Budget for FY2014 is expected to record a slightly smaller deficit than what we had estimated a year ago. We had budgeted for an overall deficit of \$1.2 billion (or 0.3% of GDP). We now expect a very small deficit of \$0.1 billion, close to a balanced position.

Economic Performance and Outlook

A.3. MTI expects Singapore's GDP growth in 2015 to be between 2% to 4%. This is not different from the 2.9% growth last year.

A.4. The global outlook for 2015 is uncertain. The US continues to recover. Europe's growth remains weak, and the Eurozone is facing new uncertainties. Emerging Asia including our own region is seeing the effects of a slowdown in China.

A.5. The current global environment is not, however, just a temporary challenge. We may see prolonged sluggish growth in the advanced world, as well as continued consolidation in China's growth as it reforms and rebalances its economy. We should not count on significantly stronger global demand over the medium term.

Inflation, Jobs and Wages

- A.6. CPI inflation fell to 1% in 2014, largely due to the fall in COE prices and the correction in the property market which has reduced imputed rentals.¹ Food prices have been rising, especially raw foods imported from the region. However, we expect overall inflation to be close to zero in 2015.
- A.7. Our labour market remains close to full employment. The unemployment rate for citizens remained low at 2.9% in 2014. The tight labour market has also led to further increases in labour force participation rates, with more women working and more older workers staying on in employment.
- A.8. Incomes have continued to rise, outpacing inflation. The median Singaporean worker's pay grew by a slower 1.4% in real terms in 2014.² But added up over the last five years, the median worker's pay grew by 11% after adjusting for inflation. Median household income per member grew faster, at 18% over the five years in real terms, because besides higher pay, more Singaporeans have jobs.³

¹ CPI All-items inflation was 1.0% in 2014, compared to 2.4% in 2013. Excluding imputed rentals on owner-occupied accommodation (OOA), CPI inflation was 1.2% in 2014, compared to 1.9% in 2013.

² Data refers to full-time employed citizens.

³ Data refers to household income per member for Singaporean-headed employed households.

B. Building Our Future, Strengthening Social Security

- B.1. We have set new directions for the future. As PM stated in his New Year Message, we are making fundamental policy shifts to give Singaporeans **greater assurance** at each stage of life, more **opportunities**, and a **better home for all**.
- B.2. We build on the transformation we achieved in our first fifty years as a nation. Decade by decade, we competed for our place in the world against much larger and more advanced countries, and raised the quality of life for all Singaporeans.
- B.3. The older amongst us will remember the Swan brand socks we wore as schoolchildren – tearing off the Swan label that was pasted on each new pair of white school socks. They were made in the Swan Socks factory at Jalan Tukang in Jurong, founded with Japanese investment and opened by Dr Goh Keng Swee in 1964. It was labour-intensive work, but was the first factory offering significant employment for women. The factory no longer exists. Today, the area is quite transformed. Tukang Innovation Park is home to a range of companies engaged in new technologies. It also hosts MedTech One, JTC's dedicated facility for the rapidly growing medical technology industry.
- B.4. The story is the same in other industries. We have moved to advanced and sophisticated products in data storage, chemicals and pharmaceuticals.
- B.5. Services have also emerged as a major engine of enterprise and jobs. Starting from the traditional entrepot business, we built a

transshipment hub, airport and airline that are each amongst the world's leaders. Add international logistics, finance, professional services, environmental solutions and hospitality. We have made Singapore a key node in services, for Asia and the world.

- B.6. Our home-grown enterprises have made their names around the world. ST Aerospace, which started as a maintenance depot for the Air Force in the 1970s, has become the world's largest independent MRO (maintenance, repair and overhaul) provider. Hyflux's membrane systems have been installed in more than 1,300 plants worldwide, including desalination plants in the African continent. BreadTalk has in just 14 years grown from a single outlet at Bugis Junction to more than 700 outlets in 15 countries. It says it sells its signature 'Flosss' bun worldwide at a rate of one every ten seconds. XMI, started in a living room nine years ago, is selling its X-mini pocket-sized, high sound quality speakers in over 80 countries.
- B.7. But at the heart of Singapore's transformation has been **our people**.
- B.8. Among young adults (25 to 34) today, more than 95% progress to post-secondary education. This is more than four times as many compared to the experience of the baby-boomers (55 to 64). The change in just one generation has been dramatic.
- B.9. It enabled better jobs and much higher living standards for Singaporeans. **Everyone has moved up, including poorer Singaporeans.**

- B.10. Among the lower-income in the 1960s were the factory employees who made rubber slippers. They were paid about \$87 a month in 1965 (around \$340 in today's dollars).⁴ That was slightly less than half the average wage at the time. Today, a lower-income Singaporean worker (at the 20th percentile of the income range) would earn about \$1,860. That is more than **five times** as much as it used to be, after adjusting for inflation over the years.
- B.11. Wages for some of our lowest-paid jobs, like cleaners and security guards, were stagnating a decade ago, but have begun moving up in a tight labour market. Our cleaners have seen a significant increase in pay with the introduction of the tripartite Progressive Wage Model.⁵
- B.12. We achieved the same transformation for middle-income Singaporeans. The median worker's pay is about **six times** what it used to be in 1965, after adjusting for inflation. Our nurses are an example – the pay of the average nurse has always been around the median for the workforce or slightly higher. Our registered nurses earn about \$3,700 on average today.⁶ Their jobs too have changed. With greater education, nurses today do initial diagnoses and perform a range of tasks that only doctors used to do.

⁴ Based on Ministry of Labour Annual Report 1965, and including employer CPF contributions.

⁵ Wages of "Cleaners, Labourers & Related Workers" grew by 17% from 2012 to 2014, or 13% after adjusting for inflation. Source: Comprehensive Labour Force Survey, MOM. This does not capture fully the lift in wages that has taken place since the Progressive Wage Model was introduced for cleaners in 2014.

⁶ MOF estimates from Occupation Wage Survey 2013, and including employer CPF contributions.

- B.13. We have caught up with many other countries that were well ahead of us. The median Singaporean worker's wage was about 60% of that in Hong Kong in the mid-70s, and less than half of that in Japan. Our median wage is now the highest among the Asian NIEs (Newly Industrialised Economies), and is only about 10% lower than in Japan. (Refer to Annex A-1)
- B.14. However, as the experience of the developed economies shows, as average incomes rise, it becomes harder for them to go up. In the US, Japan, UK and much of Europe, there has been no increase in real incomes over the last decade for the median household. Even in Taiwan, where median household incomes are lower than in Singapore, real incomes remain below where they were at the start of the previous decade. The stagnation in median incomes in all these countries has happened despite the real strengths that they have, some of which exceed our own capabilities in Singapore. Their experiences reflect both the intense global competition and the forces of technology that are challenging a growing range of jobs, in virtually every developed economy.
- B.15. Our incomes in Singapore have fortunately continued to grow in the last decade, for both middle- and lower-income households. The median household income per member has in fact increased by 36% in real terms.⁷ But we face the **same global realities and challenges** as these countries. We cannot change these realities.

⁷ Based on real median household income per member of Singaporean-headed employed households. The income growth rate after accounting for taxes and transfers is 38.5%; the corresponding figure for the 20th percentile household is 37.2%.

We must therefore stay the course in restructuring our economy, lift productivity and develop new capabilities for the future. That is the only way we can sustain income growth and meet aspirations for higher standards of living in the years to come.

Building the Future

B.16. This Budget is focused on building Singapore's future. We must reach our **next frontier as an economy**, with firms driven by **innovation**, and higher incomes coming from **deep skills and expertise** in every job. We must ensure a society that is **fair and just**, where everyone has a chance to move up and do well regardless of where they start. And we must complement a culture of personal effort and responsibility with stronger collective responsibility, especially for our elderly.

B.17. To achieve this vision, the Budget takes major steps in four areas:

- a. First, we will invest in the skills of the future, and **empower every individual** to learn and develop throughout life. We must become a meritocracy of skills, not a hierarchy of grades earned early in life. A society where people keep learning and pushing their potential, and are valued for their contributions at each stage of life.
- b. Second, we will continue to restructure our economy, and support the next generation of business successes by promoting **innovation** and **internationalisation**.

- c. Third, we will invest in **economic and social infrastructure for the future**, to create new competitive strengths, a highly liveable home for Singaporeans, and quality healthcare.
- d. Fourth, we will **strengthen assurance in retirement**, complementing the Pioneer Generation Package and other social policy shifts in recent years. We will also enhance **support for our middle-income families**.

B.18. Let me elaborate briefly on each of these major directions.

Fostering Deep Skills and Innovation

B.19. First, we must build deep skills and advanced capabilities. It is absolutely crucial that we achieve this, so that we can compete internationally and help Singaporeans do well in their careers, even as the world of work is transformed by new technologies.

B.20. Being small, we cannot achieve expertise and advanced capabilities in every area. We have to build on the strengths we have already developed. We must also focus on areas in growing demand, and where Singaporeans have the capacity to excel. We are well positioned to be amongst the leaders in Asia and globally in **five growth clusters of the future**:

- a. **Advanced Manufacturing**, aided by new technologies such as advanced robotics and additive manufacturing.
- b. **Applied Health Sciences**, such as developing new medical devices and better nutrition, and transforming healthcare delivery to provide the best care in an affordable way. This

cluster will help serve our social goals, but also develop economic leadership.

c. **Smart and Sustainable Urban Solutions.** There is growing demand in the world for Singapore's expertise in water and waste management, transport and urban planning. We must also develop new solutions to overcome our own physical constraints.

d. **Logistics and Aerospace.** We must entrench our position as a leading global hub, by investing in new technological platforms and in our air and seaport infrastructure.

e. **Asian and Global Financial Services.** Singapore is well positioned to serve the rapid growth of Asian finance, in areas such as infrastructure funding, structured trade finance and wealth management.

B.21. Besides investing in the advanced capabilities that these growth clusters need, we must retain our vibrance as a city by developing creative talents and refreshing our hotel and retail sector. In addition, we must ensure we have people with the skills and empathy needed for our important social priorities, such as strengthening early childhood education for those with weaker starts in life.

B.22. We are therefore embarking on the next wave of investment in our people. Through SkillsFuture, we will help Singaporeans **learn at every age**, and develop **expertise and flair in every field**. We will develop a whole array of learning options for individuals to choose as they shape their journey through life. We

will support this through higher subsidies and a range of awards and fellowships for those pursuing mastery in their fields. SkillsFuture involves everyone: individuals and families, employers and industry associations, unions, education and training providers, and the Government as an active enabler in the whole initiative.

- B.23. Second, we must **make innovation pervasive** in our economy, and take concerted steps to include as many SMEs as possible. Our industries have to shift from value-adding to value-creating. We have to bring new ideas to the market.
- B.24. The Government will **refine the pace of increase in foreign worker levies**, since foreign worker inflows have slowed down markedly. However, the tight labour market is now a reality. Firms have to devise new ways to survive and grow.
- B.25. We will give stronger support to SMEs who **innovate and go beyond the norm**. Every form of innovation counts, and must be supported – whether it is a new process or brand, developing online marketing or leveraging on big data.
- B.26. We will also strengthen support for our SMEs to **venture abroad**. Compared to a decade ago, many more SMEs are doing well overseas. They are growing and overcoming the constraints of our domestic economy. New technologies now present another opportunity. E-commerce, digitisation, and crowd-sourcing of ideas and funds are **levelling the playing field** for start-ups and small enterprises, making it easier for them to compete with larger players and expand internationally.

Evolving our Culture

B.27. However, achieving this transformation towards deep skills and innovation will require more than new programmes, or a higher take-up of government incentives. We need a **different motivation** in our society. Our economic and social culture must change:

- a. As individuals, we have to view the education that we get when we are young as but the starting point of a journey of personal learning, and **self-renewal** throughout our lives. Whichever the job, we must want to master what we do, and gain satisfaction from it. We must also develop a **culture of mentoring**, where individuals who have developed expertise and experience share their knowledge and passion with others, at their own workplaces, at education centres, and in the community.
- b. Employers must recognise what the best companies have found: that **people are their biggest opportunity**. Every employer must look for the potential in their people, and put time and effort into developing this potential with them. It also means looking out for mid-career Singaporeans who are temporarily dislocated, and helping them to get back in, get re-trained where necessary, and contribute their worth. And it matters greatly too when **employees are empowered**. The most innovative companies find that ideas come from people from all across the enterprise – whether for an improved

workflow, a new colour or design, or a better way to reach customers' hearts.

- c. In industry, we need a **new, collaborative culture**, to take Singapore's skills to a much higher level. We do not have the long tradition of collaboration in countries like Germany and Switzerland, where companies join forces to develop skills for the whole industry. We have to develop our own tradition, and find practical means to deepen collaboration, industry by industry. It will be especially critical to developing capabilities among our SMEs, who on their own often lack the capacity to attract and train people.

B.28. **It will take time** to develop a new economic and social culture. Neither can we within a few years develop the deep pools of expertise that we need, transform our enterprises and achieve innovative breakthroughs in every sector. But we can only get to where we want in the long term by taking steps now, moving ahead relentlessly, and never thinking that the status quo will get us to a better place.

Investing in Infrastructure for the Future

B.29. The third thrust of this Budget involves a major reinvestment in Singapore's infrastructure, to meet our future economic and social needs.

B.30. First, we are embarking on the development of **Changi Airport's new terminal, T5**. Changi is part of the lifeblood of our economy. T5 will be almost as large as T1 to T3 combined. It is a critical investment, that will yield benefits for decades to come. It will

enable Changi to keep its role as a leading hub for international transit, and create connections to emerging cities in Asia and globally. We are starting now, but the whole project will take more than 10 years. Together with the development of Tuas seaport over the longer term, we will secure Singapore's place in Asian and global logistics for many years to come.

- B.31. Second, we are investing to make Singapore a highly liveable city. We are making vast **improvements in public transport**, and **developing our heartlands into vibrant homes and communities**.
- B.32. We are also expanding every dimension of the **healthcare system**: increasing the number of beds in acute hospitals by 25% by the end of the decade; doubling our community hospital beds; increasing nursing home capacity by about 70%; and investing to bring affordable care into the community so that our seniors can be cared for at home. Each of these efforts will be complemented by our **Smart Nation** initiative to improve the quality of life of the average citizen.
- B.33. These major investments in Singapore's future will mean significantly higher development expenditures. Our development expenditures have already increased from \$12 billion five years ago to about \$20 billion (4.8% of GDP) in the coming fiscal year. They will grow further, by 50% to about \$30 billion (6% of GDP) by the end of this decade.
- B.34. The last time we made such significant investments in infrastructure (in proportion to GDP) was in the 1990s, when we

embarked on the development of Jurong Island, built the North-East Line and the Light Rail Transit network, and Changi General Hospital amongst other significant investments.

- B.35. Just as these investments two decades ago laid the foundations for better living standards over many years, we must now **invest in the next era of jobs and incomes, and a higher quality of life.**

Building a Fair and Just Society

- B.36. We are taking further steps in this Budget to build a fair and inclusive society.
- B.37. They build on the major shifts in social policy that we have introduced in the last five years, to support both middle-income and lower-income Singaporeans.
- B.38. In **education**, we have substantially increased the number of teachers and allied educators in our schools to raise the quality of education for all. Our spending per student has increased by more than a third (in real terms) over the last five years, and with more resources going especially to students with a weaker start. We have also increased subsidies for lower and middle-income students significantly, from pre-school through to tertiary education.
- B.39. We have enhanced **Workfare**, which supplements the incomes of lower-income workers. We have significantly expanded housing grants for both low and middle income couples so they can afford HDB homes.

- B.40. In **healthcare**, we introduced the Pioneer Generation Package (PGP) last year, and introduced permanently higher subsidies for lower and middle-income Singaporeans of all ages.
- B.41. We have also transformed our **social support networks** on the ground. Older Singaporeans will remember the Social Welfare Department or 'Hock Lee Por' (福利部) as it was called in Hokkien. It provided some support for the homeless or those suffering from malnutrition. By the end of this year, we will have 24 Social Service Offices (SSOs) in our HDB towns to disburse social assistance and coordinate social services for those in difficulty. That's 24 'Hock Lee Pors', closer to the ground, and each providing a wider range of support to help Singaporeans when they fall into difficult times. Plus we will have many more Senior Activity Centres and Eldercare Centres to provide recreation and care for our seniors near their homes.
- B.42. We will make further moves in this year's Budget. We will **strengthen our social security system**, to help Singaporeans supplement their incomes in retirement. It will complement the enhanced healthcare subsidies that we introduced last year.
- B.43. First, we will raise the **CPF salary ceiling** to benefit middle-income Singaporeans, and raise contribution rates for older workers. We will also **enhance CPF interest rates further in retirement** to benefit those with lower balances. These are important enhancements. They will be on top of the changes recently proposed by the CPF Advisory Panel, aimed at providing

more flexibility and certainty to CPF members, which the Government has accepted.

- B.44. Second, we will introduce the **Silver Support Scheme** that PM spoke about at last year's National Day Rally. It will be a major new feature in our social security system. While Workfare systematically enhances the incomes of the bottom 20% to 30% of lower-wage Singaporeans during their working years, Silver Support will supplement incomes for 20% to 30% of seniors in their retirement years, with greater support going to the least well-off among them. Together with Workfare, Silver Support will help mitigate life's disparities. It is the fair thing to do, and complements the family support for our elders and the community initiatives that make us a strong society.
- B.45. This Budget will in addition encourage the spirit of philanthropy and giving, as part of Singapore's 50th year. It will also lend further support to **families with children**, and include a few measures to help Singaporeans with the cost of living.

Moving Ahead with Confidence

- B.46. Our total government spending will go up significantly in the coming years. We are increasing development expenditures, as we reinvest in Singapore's future. We will also see a steady increase in operating expenditures, especially due to higher healthcare subsidies and the care needs of a growing older population. We must therefore **strengthen our revenue base** to support this increase in spending through the end of the decade.

- B.47. Budget 2015 takes us into our future. Our aspirations are attainable. We can build a future that keeps social mobility alive in each new generation. A future that meets the aspirations of young and middle-aged Singaporeans, and enables us to realise the best in ourselves. And a future with greater assurance as we grow old.
- B.48. We must go forward with the blend of imagination and practicality that brought Singapore this far in 50 years. With **hard heads, but warm hearts too**, so that we all move up together.

C. DEVELOPING OUR PEOPLE

- C.1. We have built a first-rate school system in Singapore. Compared to other countries, our students do better than their peers in learning.⁸ Importantly, we have achieved high average performance while avoiding the very large disparities in outcomes that many other education systems have.⁹
- C.2. We have also built highly credible Institutes of Higher Learning. We are investing more in our ITE, Polytechnics and Universities to enhance quality and affordability, and to offer more diverse pathways for Singaporeans to choose to advance themselves.
- C.3. We have also been developing a system of continuing education and training. Over the last seven years, the take-up of CET places has increased five-fold from 79,000 to 384,000, covering more than 30 industries.¹⁰

Lifelong Learning: Our Next Phase of Development

- C.4. We will build on these foundations to create a new environment for lifelong learning. It is critical to our future. It will develop the skills and mastery needed to take our economy to the next level. More fundamentally, it aims to empower each Singaporean to

⁸ The 2012 Programme for International Student Assessment (PISA) study found that our students ranked in the top 3 for mathematics, science and reading.

⁹ The 2012 PISA study found that our portion of “resilient students” (i.e. students from the most socio-economically disadvantaged quartile in their country, who score in the top quartile on the PISA assessments of student achievement internationally, after accounting for socioeconomic status) is more than twice that of the OECD average.

¹⁰ The reference period is FY2007 to FY2013.

chart their own journey in life, and gain fulfilment at work, and even in their senior years.

- C.5. We have called this development effort 'SkillsFuture'. It marks a major **new phase of investment in our people**, throughout life:
- a. It starts in school, where all students will receive education and career guidance to help them make informed choices about the pathways available to them.
 - b. They will be able to engage in deeper and more structured internship programmes, particularly while enrolled at our Institutes of Higher Learning.
 - c. Once in the workforce, Singaporeans will be able to acquire deeper skills relevant to their jobs, as well as renew themselves by going back to education in the course of their careers.
 - d. We will support these continuous engagements in learning. We will provide enhanced subsidies for courses, as well as special support through SkillsFuture Study Awards, and SkillsFuture Fellowships for those pursuing mastery in their fields.
 - e. These specific initiatives will be underpinned by a lifelong SkillsFuture Credit which every Singaporean will receive. There will be top-ups at regular intervals with credits that they can use to help pay for courses of their choice. Every Singaporean can use the SkillsFuture Credit to take charge of their own learning over the course of their lives.

- f. It will involve new modes of learning – such as short modular courses, weekend workshops, and learning online through Massive Online Open Courses (MOOCs). It will include executive and specialist development programmes, and on-the-job training both in individual firms and ‘industry campuses’.
 - g. It will also involve new types of educators and trainers, including industry practitioners, besides our academics. Developing this new landscape of learning will take time and resources, but we must put full effort into this. MOE and WDA will enhance existing accreditation frameworks for this purpose for courses within the education and training industry.
 - h. We must make it possible for every individual to decide on his or her own learning journey: when to go for fresh infusions of skills or knowledge, and whether it should be in specialised professional training, acquiring soft skills, or developing a new interest.
- C.6. No one can honestly tell what they will be doing a decade or two after leaving school. We must each develop through life, adapting to changes in the job market and the new opportunities that will come up. But whichever the field we are in or the job that we do, we must, as Singaporeans, aim to gain expertise and achieve mastery.
- C.7. **Senthilnathan Manickam**, 41, is an example. He graduated from Ngee Ann Polytechnic’s Film Sound and Video course. After

some years of working on corporate videos and TV programmes, he felt he needed to specialise, to differentiate himself from the field. He chose to specialise in high-speed cinematography, and is making a name for himself in the field in Singapore and abroad. As Senthil puts it: “There isn’t one path but many paths to achieve your dreams and be successful. Don’t give up. You always learn something new every day.”

- C.8. With the implementation of the full package of measures under SkillsFuture, we estimate that spending on continuing education and training will increase from about \$600 million per year over the last five years, to an average of over \$1 billion per year from now to 2020.
- C.9. I will also top up the National Productivity Fund by \$1.5 billion this year to partly meet this increase in expenditure.

Starting in the Schooling Years

- C.10. We will start from our secondary schools. SkillsFuture is not intended to tell young Singaporeans they have to zero in on a particular career at that stage. However, we have to help them discover their strengths and interests, so that they can choose an educational path not determined just by cut-off points, but by informed choices about courses and the career opportunities they lead to.
- C.11. We will develop a **professional core of Education and Career Counsellors**, for our schools and Institutes of Higher Learning. We will also scale up career counselling services at WDA for our

working individuals. These counsellors will be equipped with the industry experience and knowledge needed to provide informed guidance.

- C.12. Next, we will improve internships in our Institutes of Higher Learning to make them more structured and meaningful. We will also help more of our students to do internships abroad.
- C.13. We have to develop much better internship programmes compared to what we have today, to help our students as well as our SMEs. There are some good examples of how this can be done. **Hope Teknik** is a young company in Advanced Manufacturing. It has 50 people and takes in about 10 interns a year. The interns get a chance to pick up new skills beyond their formal polytechnic and university curriculums. Hope Teknik also hopes to retain some of them as future employees. **Mohamad Jafry bin Samsudin** is an example. During his internship at Hope Teknik, he was involved in developing the latest generation of the SCDF's Red Rhino fire vehicles. Since graduating from Republic Polytechnic, Jafry has joined Hope Teknik, where he continues on his journey of development.
- C.14. Many more of our SMEs can benefit in the same way. We will roll out enhanced internships in two-thirds of polytechnic courses and half of ITE courses over the next two years.
- C.15. The Minister for Education will provide more details during the Committee of Supply.

Taking Learning into our Careers

C.16. The next stage concerns what happens after we graduate from school and tertiary education. We will invest continually in Singaporeans, throughout their careers.

SkillsFuture Credit

C.17. We will create a **SkillsFuture Credit** for all Singaporeans. NTUC and several Members of Parliament have previously suggested a scheme of this nature.

C.18. Each Singaporean 25 years old and above will receive an initial credit of \$500 from 2016. We will make further top-ups to their SkillsFuture Credit at regular intervals. These credits will not expire, but can only be used for education and training.

C.19. We have decided to spread out the top-ups over the course of a person's life for two reasons.

a. First, there is no need for anyone to rush to use their credit. While some may use their initial \$500 immediately for a short programme, others may want to accumulate credits to engage in more substantial training later in their career.

b. Second, we need time to develop quality offerings in our SkillsFuture landscape that are relevant to jobs and individuals' future careers. We must go for quality training which will open up career possibilities for individuals, and that employers find relevant.

C.20. The SkillsFuture Credit can be used for a broad range of courses supported by government agencies. These will include courses

offered by our Institutes of Higher Learning and accredited education and training providers, as well as a range of courses that are funded by the WDA.

- C.21. To complement this, every Singaporean will be given an online Individual Learning Portfolio – a one-stop education, training, and career guidance resource to help them plan their learning starting from their time in secondary school.

SkillsFuture Earn and Learn Programme

- C.22. To cater to fresh graduates from our Polytechnics and ITE, we will launch a **SkillsFuture Earn and Learn Programme** in 2015. It will give them a head start in their careers.
- C.23. The graduates will be matched with suitable employers. They will start working and undergo structured on-the-job training and mentorship, while they study for an industry-recognised qualification.
- C.24. Both trainees and employers who sign up for this programme will receive substantial support from the Government. This will be done in a phased way, eventually covering up to one in three polytechnic and ITE graduates.

Enhanced Subsidies for Mid-Career Singaporeans

- C.25. We will enhance subsidies for mid-career Singaporeans.
- C.26. First, **education and training subsidies for all Singaporeans aged 40 and above will be enhanced to a minimum of 90%** of training costs for courses funded by MOE and WDA.

- C.27. This additional support from the Government recognises the opportunity costs that mid-career Singaporeans face when they go for education and training.
- C.28. These subsidies are significant:
- a. For a part-time undergraduate course such as a Bachelor of Engineering, which is already subsidised, the total fees payable by a student will be reduced by 60%, from about \$17,000 to \$6,800.
- C.29. Second, Singaporeans will now be able to enjoy **multiple subsidies from MOE for modular courses** – at all levels, and regardless of age. This flexibility of modular, continuous learning will help individuals, who will often have to balance family and career together with their learning. Many individuals may prefer to go for several bites of short courses, rather than to go for a long course.
- C.30. We will implement these enhanced subsidies later in the year.

Targeted Support for Career Progression

- C.31. Beyond the SkillsFuture Credit and these broad-based subsidies, we will provide special support for Singaporeans seeking to develop deep skills in particular fields.
- C.32. First, we will introduce **SkillsFuture Study Awards**. They will support individuals who wish to develop the specialist skills required for our future growth clusters. For example, they may include software developers, satellite engineers or master craftsmen. The awards can also support those who already have

deep specialist skills and wish to develop other competencies such as business and cross-cultural skills. At this stage, we are not setting a cap on the number of awards, but it should eventually be about 2,000 study awards per year. We will introduce the SkillsFuture Study Awards in phases, starting this year.

- C.33. Second, we will introduce **SkillsFuture Fellowships**, to develop Singaporeans to achieve mastery in their respective fields. We will award about 100 fellowships a year, which can be used for a range of education and training options, in both craft-based and knowledge-based areas. It will be funded from the SkillsFuture Jubilee Fund, which will be financed by voluntary contributions from employers, unions, the public and the Government. This broad-based involvement signifies everyone being a stakeholder. The SkillsFuture Fellowships will be introduced from 2016.
- C.34. The SkillsFuture Study Awards and Fellowships will be mainly used to develop deep skills and mastery in the growth clusters of the future. But we will be open to those who want to develop themselves in fields that they are really passionate about, that may not be in these growth clusters. Take individuals like **Edwin Neo**, for example. He was trained in interior design, but developed a passion for making high quality European-style shoes. He went to train under a master shoemaker in Budapest and came back to found his own company. He is doing well, selling both ready-to-wear shoes and upmarket bespoke creations.

C.35. Finally, we will work with companies to grow Singaporean corporate leaders under the **SkillsFuture Leadership Development Initiative**. This initiative will provide support for companies who commit to developing a pipeline of Singaporeans to take on corporate leadership roles and responsibilities in the future. This too is important.

A New Industry Collaboration

C.36. A key challenge in SkillsFuture is to help uplift a significant base of our SMEs, and involve them in this process of skills development. This will not happen naturally – many of our SMEs lack their own training capacity and are unable to plan for the future.

C.37. To uplift the broad base of companies, and to help Singaporeans develop their careers across our economy, we need new forms of **industry collaboration**.

C.38. We will strengthen collaboration between training institutions, unions, Trade Associations, and employers to chart out future skills needed, and plan systematically to develop these skills in our people. Training may take place in our educational institutions, in our lifelong learning institutes, at industry campuses, or on the job. We will work with all stakeholders to develop and implement these **comprehensive Sectoral Manpower Plans (SMPs)** in all key sectors by 2020.

C.39. We will also work with our industry partners to develop a shared pool of **SkillsFuture Mentors**. These will be people with

specialised, industry-relevant skills, which SMEs can tap on. They will help SMEs overcome the constraints they face in training capabilities and capacity. We will start rolling out this scheme this year for industry mentors in sectors that are more ready, such as the Retail, Food, and Logistics sectors.

C.40. More details on these initiatives will be released later. (Refer to Annex A-2.)

D. INVESTING IN INNOVATION AND INTERNATIONALISATION

D.1. Let me go on to the second major plank of this year's Budget – Investing in Innovation and Internationalisation.

Economic Restructuring: Staying on Course, Focusing on Innovation

D.2. Our productivity level today is 13% higher than the start of our restructuring journey in early 2010. This is an average growth rate of 2.5% per year. All of this gain was achieved in 2010 (11.6%) and 2011 (2.3%) as we recovered from the recession, and growth has been negligible in the three years since then.

D.3. There is a stark difference between productivity growth in industries where our businesses compete internationally, and in those where businesses compete mainly in the domestic market, such as construction, retail and F&B. Over the past five years, our outward-oriented sectors saw productivity growth of over 5% per year on average, compared to less than 1% for our domestic-oriented sectors. Further, employment growth has been mainly in the domestic-oriented sectors. This is essentially why our overall productivity growth has lagged.

D.4. Every sector can achieve a lift in productivity, but it is especially important for our domestic sectors. It will only happen as firms rethink business strategies, seek to break the mould by finding new ways of growing their revenues, and take full advantage of

Government incentives for upgrading. Our tight labour market itself will motivate businesses to do so.

- D.5. We know that this major upgrading is possible in our domestic industries where productivity has lagged, because there are leaders internationally who have done it. Many of our businesses are already moving.
- D.6. **Samwoh** in the construction industry is one example. They have used government grants to invest in R&D on recycling waste materials such as rubber tyres and rubble into new construction materials. Samwoh is doing this to make a mark for itself in sustainable construction.
- D.7. They are developing their people. Like Lim Wee Fong, who joined them as a researcher while doing part-time Masters studies at NTU. He now manages Samwoh's research lab which is looking at further innovations.

From Basic Solutions to Breakthroughs

- D.8. Budget 2015 will sharpen support to businesses that are making significant effort to raise productivity, especially by **innovating** and **internationalising**.
- D.9. We have seen good take-up of our productivity schemes so far. Most of our firms are now engaged in thinking about productivity, and many are already adopting basic solutions.
- D.10. But we have to go **beyond basic solutions**, with a **critical mass** of businesses in each sector going for more **significant breakthroughs** in the way business is done. The business

transformations that underpin a major shift in productivity **will take time**, and it also takes time for the market to restructure with adopters of new ideas and technologies gaining share at the expense of those who stand still. But we have to **build momentum** into the process now.

- D.11. In our next phase of restructuring, we will therefore keep up our broad-based support for productivity but **increase support for efforts to innovate**, in all forms – new ways of reaching customers, devising a new design or brand; or creating value through major re-skilling of their people and a radical overhaul in the way work is done. Every form of innovation counts.

Phasing out the Transition Support Package

- D.12. The Transition Support Package (TSP) has been an important source of support to businesses since it was launched in 2013. It has three components: the Wage Credit Scheme (WCS), Corporate Income Tax (CIT) Rebate, and Productivity and Innovation Credit Bonus (PIC Bonus).
- D.13. In total, it is estimated to disburse \$7.5 billion over three years, significantly higher than our original estimate of \$5.3 billion.
- D.14. We have received feedback from the business community to extend the Transition Support Package, which is due to expire this year. We recognise that firms may need more time to adjust to rising costs as they restructure. I will thus phase the transitional support out gradually by extending the WCS and CIT Rebate for two additional years, while letting the PIC Bonus expire.

Wage Credit Scheme

D.15. I will **extend the Wage Credit Scheme for 2016 and 2017**, to give employers more time to adjust to the tight labour market.

- a. Over the next two years, the Government will co-fund 20% of wage increases given to Singaporean employees earning a gross monthly wage of \$4,000 and below.
- b. This co-funding will apply to wage increases given in 2016 and 2017, over the employee's wage level in the preceding year.
- c. In addition, if wage increases given in 2015 are sustained in 2016 and 2017, employers will continue to receive co-funding, at the new rate of 20%.
- d. Reducing the level of co-funding from 40% currently, to 20% in 2016 and 2017, phases out the WCS gradually. The Scheme is intended to help businesses through this restructuring, and we will not retain it for the long term.

D.16. So the basic features of the scheme are the same. It will apply to workers within the same income levels, but we will step down the government support from 40% to 20% in 2016 and 2017. This extension of the WCS will cost about \$1.8 billion over two years.

CIT Rebate

D.17. As firms continue to face cost pressures in this period of restructuring, I will **extend the CIT rebate for Years of Assessment (YA) 2016 and 2017** at the same rate of 30% of tax

payable, but up to a lower cap of \$20,000 per YA. The reduced cap will ensure that more support is focused on SMEs.

D.18. The extension of the CIT rebate is expected to cost about \$800 million over two years.

Productivity and Innovation Credit (PIC) Bonus

D.19. I introduced the PIC Bonus to encourage businesses to take advantage of the main PIC scheme, which offers substantial enhanced tax deductions or cash payouts on qualifying activities.¹¹

D.20. The PIC Bonus was intended as a transitional measure and has been successful in spreading the culture of productivity amongst SMEs. Last year, I extended the main PIC scheme to YA 2018. I also introduced a higher level of support, the PIC+ scheme, to benefit SMEs undertaking more significant investments in productivity. As we now have good take-up of the PIC scheme, we will **let the PIC Bonus expire in YA 2015**. Further, we will introduce additional measures to support innovation and internationalisation, which I will speak about shortly.

Offsetting CPF Changes

D.21. Last year, we announced a one-year Temporary Employment Credit (TEC), which provides employers an offset of 0.5% of

¹¹ The PIC offers benefits of: 400% PIC tax deductions up to \$400,000 in expenditure for each PIC qualifying activity; or Cash payout at 60% on up to \$100,000 of the qualifying expenditure. In Budget 2014, we introduced the PIC+ scheme for SMEs, which raised the expenditure cap for each qualifying activity from \$400,000 to \$600,000 to help SMEs that are making more substantial investments to transform their businesses.

wages to help them adjust to the increase in Medisave contribution rates which took effect in January 2015.

- D.22. This year, we will enhance the TEC in two ways.
- D.23. First, we will **raise the TEC** to 1% of wages in 2015. This will provide additional support to firms for their labour costs, or an extra 0.5 percentage points on top of what I announced last year.
- D.24. Second, I will **extend the TEC by two years**, to help employers adjust to the cost increases due to additional CPF changes which I will speak about later. These new changes will take effect from January 2016. I will give an additional TEC of 1% of wages in 2016 and 0.5% of wages in 2017. In essence, the extension of the TEC will offset two-thirds of the employers' costs due to CPF changes in 2016, and one-third in 2017.
- D.25. The enhancements to the TEC will cost an additional \$1.4 billion over three years, on top of the \$330 million from the 0.5% TEC that was announced last year. (Refer to Annex A-3.)

Recalibrating Foreign Worker Levies

- D.26. Our foreign worker policies have been progressively and significantly tightened since 2010. They are succeeding in slowing down foreign workforce growth. Excluding Construction, the net inflow of foreign workers has slowed significantly from 60,000 in 2011 to just over 16,000 in 2014 (excluding foreign domestic workers). In the Construction sector, the growth was around 10,000 in 2014, far below that recorded in the previous two years.

- D.27. The significant slowdown we have seen in the last year gives us space to adjust the pace of our tightening measures.
- D.28. We will thus **defer this year's round of announced levy increases** for S Pass and Work Permit Holders in every sector. This will give companies, especially our SMEs, more time to adapt to **the new normal of a permanently tight labour market**, where it is both difficult to find Singaporean employees, and foreign workers are no longer an easy solution.
- D.29. However, to avoid any misunderstanding, let me affirm unequivocally that while we are adjusting the pace of our foreign worker measures, we are **not changing direction**. It remains crucial for Singapore that we restructure towards reducing our reliance on manpower, and find new and more innovative ways to do business.
- D.30. We will also make further adjustments to the Manufacturing and Construction sector levies.
- D.31. In the Manufacturing sector, there has been no increase in the number of Work Permit Holders over the past year. The sector is also making good progress on productivity. We will therefore **keep the current levy rates unchanged for two more years – 2015 and 2016 – for Work Permit Holders in the Manufacturing sector**. In other words, the 2014 rates will remain in place for another 2 years.
- D.32. For the Construction sector we want to encourage firms to hire and retain more productive, higher skilled R1 workers. Therefore, in addition to deferring this year's levy increases to next year, we

will make two further adjustments to Work Permit Holder levies over 2015 - 2017. Details on these changes are in the Annex. (Refer to Annex A-5)

- D.33. Our basic approach remains unchanged. We have to stay the course in reducing reliance on labour and especially unskilled foreign workers. However, we will continue to calibrate our foreign worker policies as informed by evidence on the pace of inflows, the quality of workers being employed, and the progress being made in raising productivity, sector by sector.
- D.34. Through the incentives and grants that we provide businesses to help them upgrade and innovate, we will continue to flow back to businesses more resources than the additional foreign worker levies that we are collecting as a result of the tightening that began in 2010. Most of this support is targeted at our SMEs. This year alone, the amount that we will flow back to our SMEs is expected to be more than one-and-a-half times the additional foreign worker levies that they will pay. But some companies benefit far more than others, and these are the companies which innovate and take advantage of government schemes.

Strengthening our Support for Innovation and Internationalisation

- D.35. Let me now explain how we will strengthen our support for innovation, internationalisation, as well as mergers & acquisitions.

Innovation

D.36. We will strengthen grant support for every form of innovation. We will also help firms capture greater value from R&D and we will catalyse enterprise financing, which can be especially useful for small businesses attempting breakthroughs.

Strengthening Grant Support

D.37. We recognise that bringing about innovation involves a range of activities, from technology research to product development, process improvements, or creation of new brands and marketing efforts. For most SMEs, innovation will often not come in the form of major technological breakthroughs, but in other forms of innovations that are nonetheless significant. We have considered how to best lend support to these innovations, besides our existing PIC and R&D tax measures.

D.38. We **will make it easier for SMEs who are engaging in innovation to apply to SPRING for Capability Development Grants (CDG)**. We will enhance the CDG, which supports a wide range of innovation activities from developing intellectual properties to new brands. It is a flexible and customisable grant which takes into consideration each SME's unique circumstances and the scope of its project.

D.39. To make the CDG more accessible to companies, we will simplify the application process for projects below \$30,000. We will also extend the enhanced funding support level, of up to 70% of costs, for three more years, to 31 March 2018.

- D.40. The CDG already supports 1,200 projects a year and we want to grow this. We are not setting an upper limit on the number of projects to support, but estimate that the enhanced CDG will cost us approximately \$600 million in total over the next three years.
- D.41. We will also promote industry collaborations. We will expand SPRING's Collaborative Industry Projects (CIP) which incentivises industry players and partners such as trade associations to work with SMEs to develop productive and innovative solutions that are scalable across the industry. We will also extend and enhance the PACT scheme (Partnerships for Capability Transformation) to foster collaboration between large companies and SMEs in their supply chain.

Creating and Capturing Greater Value from R&D

- D.42. Next, we will support companies in creating and capturing greater value from R&D.
- D.43. Local electronics manufacturer **Dou Yee International** is a good example. From a small trading business, it has transformed itself into a dominant player in the electrostatic materials industry with an annual turnover of \$300 million. It did this through R&D and a longstanding partnership with A*STAR. Most recently, Dou Yee has worked with A*STAR to develop smart plastic packaging that extends the freshness and shelf-life of food.
- D.44. Since 2011, our public investments have catalysed \$8.6 billion of industry R&D, supported approximately 400 start-ups and generated 800 licenses. All this coming from public sector R&D.

- D.45. In our next Research, Innovation and Enterprise five-year plan, we will step up efforts to help companies develop, test and commercialise new products and solutions. More details will be provided later in the year.
- D.46. We must continue to invest in R&D to enhance the long term potential of our economy. To fund future efforts, I will **top up the National Research Fund by \$1 billion** this year.

Catalysing Enterprise Financing

- D.47. The third prong of our support for innovation is catalysing financing to ensure that good, promising companies have access to the capital that they need to grow.
- D.48. First, we want to reduce early-stage funding gaps for start-ups. We will increase the co-investment cap for SPRING's Startup Enterprise Development Scheme (SEEDS) and Business Angel Scheme (BAS), to catalyse more funds for start-ups with greater funding needs. We will also top up the BAS to partner more angel investors with experience in nurturing innovative start-ups.
- D.49. Second, we will **pilot a venture debt risk-sharing programme** with selected financial institutions. This programme aims to provide high growth companies with an alternative to equity financing and traditional bank loans. Venture debt typically requires minimal collateral as lenders instead receive equity options to share in the company's future growth. This new method of financing, in between equity financing and traditional bank financing, is worth trying. SPRING will provide **50% risk-sharing with selected financial institutions** for such loans over an initial

period of two years. Over this period, we aim to catalyse about 100 venture debt loans, totalling approximately \$500 million.

Going beyond our Shores

- D.50. Supporting our companies to internationalise is a key strategy to help them grow revenues.
- D.51. First, we will raise the support level for SMEs for all activities under IE Singapore's grant schemes **from 50% to 70%** for three years.¹² We anticipate that this will benefit about 700 projects.
- D.52. Second, I will enhance the Double Tax Deduction for Internationalisation scheme to cover salaries incurred for Singaporeans posted overseas. This will provide greater support to companies venturing overseas, by co-sharing their risks and initial costs of expanding overseas, as well as creating skilled jobs for Singaporeans.
- D.53. Third, I will introduce a new tax incentive, the **International Growth Scheme (IGS)**, to provide support to meet the needs of larger Singapore companies in their internationalisation efforts.¹³ Qualifying companies will enjoy a 10% concessionary tax rate on their incremental income from qualifying activities. It will encourage more Singapore companies to expand overseas, while anchoring their key business activities and HQ in Singapore.

¹² These are the Global Company Partnership (GCP) and the Market Readiness Assistance (MRA) grants. The current support level for both these schemes is up to 50%, except for four activities – Design, Branding, Intellectual Property, and Mergers and Acquisitions – which are supported at 70% from 1 Apr 2012 to 31 Mar 2015.

¹³ The IGS will expire on 31 March 2020.

D.54. In total, these three enhancements to our schemes for internationalisation are expected to cost \$240 million.

Encouraging Scale

D.55. Finally, we will help spur Mergers and Acquisitions (M&A). They are a useful strategy for many companies to acquire scale, attract talent, and compete effectively overseas.

D.56. First, I will increase the tax allowance for acquisition costs from the current 5% to 25% of the value of acquisition. Companies would be able to claim M&A benefits for acquisitions resulting in at least 20% shareholding in the target company, down from the current threshold of 50% shareholding. This will be especially helpful for SMEs, who may not be able to acquire large stakes in their expansion strategies. I will also extend the M&A scheme introduced in 2010 for another five years.¹⁴

D.57. Second, we will extend the scope of IE Singapore's Internationalisation Finance Scheme (IFS) to support M&A that will aid a company's overseas expansion.¹⁵

D.58. These enhancements will cost the Government over \$100 million over five years.

¹⁴The cap on the allowance will remain at \$5 million. In other words, up to \$20 million in qualifying acquisition costs, in a single Year of Assessment, will qualify for the tax allowance. The lower minimum shareholding requirement allows for strategic tie ups, beyond just acquisition. In addition, the stamp duty relief on the transfer of unlisted shares for such deals will be extended, and similarly capped at \$20 million in total value of qualifying acquisition cost, which works out to a cap of \$40,000 of stamp duty relief per financial year.

¹⁵ Under the IFS, the government takes on 70% of the risk-share for approved loans. These are typically used for Asset-Based Financing, Structured Loans, and Bankers Guarantees. The maximum loan quantum was doubled in last year's Budget from \$15 million to \$30 million.

D.59. The Minister for Trade and Industry will provide more details on the various enhancements we are making to our grant schemes and financing incentives at the Committee of Supply. (Refer to Annex A-4.)

Other Tax Changes

D.60. I will now highlight a few tax changes to preserve our competitiveness in the maritime and financial sectors. (Refer to Annex A-6).

D.61. I will extend the **Maritime Sector Incentive** which promotes the growth of Singapore as an International Maritime Centre.

D.62. To **support the listing of REITs in Singapore**, I will extend the income tax and GST **concessions for five years**, and enhance the GST concession **to facilitate fundraising by special purpose vehicles** set up by REITs.

D.63. However, the stamp duty concessions, which are mainly for the purchase of local properties, will be allowed to lapse after 31 March 2015. The concessions were intended to enable the industry to acquire a critical mass of local assets, as a base from which the REITs can expand abroad. This has been achieved.

D.64. Overall, Singapore's tax regime for REITs continues to remain very competitive relative to those elsewhere in Asia, and will help anchor the sustainable growth of the S-REIT industry.

E. ASSURANCE IN RETIREMENT

- E.1. Let me now move on to a key plank of this year's Budget, which aims to provide Singaporeans with greater assurance in retirement.
- E.2. We have been systematically strengthening our **social security system**. Together, the **four pillars** of the system – home ownership, CPF, healthcare assurance and Workfare – are significantly enhanced compared to a decade ago.
- E.3. The first pillar, **home ownership**. The first strength of our social security system is that the vast majority of Singaporean households are homeowners. And over 80% of our lower-income households (those in the bottom 20% of incomes) own their homes. However, many are asset-rich and cash-poor in retirement, which is a problem if their children are not supporting them. We want to help them get cash out of their homes, and have strengthened our schemes for this purpose.
- E.4. But high home ownership in Singapore is a major advantage compared to many other countries, where lower-income retirees often struggle to pay their rents. Even in the US, which has one of the highest home ownership rates amongst the advanced countries, less than 40% of households in the lower-income group (bottom 20%) today own their homes. That's less than half of what we see in Singapore.
- E.5. We have enhanced this housing pillar in the last few years. We have increased housing grants to ensure that middle- and lower-income couples can afford their first homes.

- E.6. Second pillar, the **CPF system**. In its early days, when most Singaporeans did not own homes and wages were low, the CPF worked more like a savings scheme for home ownership. From the 1980s, we began rebalancing the CPF system towards retirement and healthcare needs. In recent years, we raised interest rates on the Special and Retirement Accounts, and introduced an extra 1% interest to benefit the lower- and middle-income groups. With growing life expectancy, we introduced CPF LIFE to provide assurance of lifelong payouts.
- E.7. Third pillar, **healthcare assurance**. Affordable, quality healthcare is critical as we grow older. Our Pioneers now get added lifelong assurance. We have also increased subsidies significantly at our public healthcare institutions for all lower- and middle-income Singaporeans, besides our Pioneers. MediShield Life will now give all Singaporeans protection against large medical bills, and here too we have introduced substantial Government support. We are also allowing greater flexibility in how Medisave can be used, to reduce out-of-pocket costs.
- E.8. The fourth pillar, **Workfare**. We introduced it in 2007 to supplement the income and savings of low-wage workers, and hence mitigate inequality. We have enhanced it twice since. Through Workfare, an older low-income worker can receive up to 3.5 months of additional income annually, in his CPF and in cash.
- E.9. Each of these four pillars of our social security system seeks to preserve an ethic of work, personal effort and responsibility for

the family. We should take care, in all our social policies, not to erode this **Singaporean ethic**.

E.10. But the four pillars also reflect **collective responsibility**. We have strengthened the **Government's redistributive role** within each pillar in recent years, to benefit lower- and middle-income Singaporeans.

- a. Let me give you an example of the CPF pillar. With our current Workfare and housing grant schemes, and the extra 1% interest on the first \$60,000 of CPF balances, the Government is effectively contributing to a significant accumulation of savings for the low-income worker.

We are also **sharing risks directly as fellow citizens**, not just through Government redistribution. Through MediShield Life and CPF LIFE, we are pooling risks to support one another in the face of life's uncertainties.

E.11. Besides the four pillars of social security, we have enhanced the **safety nets** that help Singaporeans who fall on hard times. Through **ComCare**, we are providing families with greater assistance on the ground, on a discretionary basis, and through **Medifund** we are helping poorer Singaporeans when they are unable to pay their bills even after subsidies. We are providing substantially greater support through ComCare and Medifund than we did even five years ago.

Strengthening Retirement Adequacy

- E.12. We will now take additional steps to strengthen our social security system.
- E.13. The Government has accepted the CPF Advisory Panel's recent recommendations to provide CPF members with more flexibility and certainty.¹⁶ The Minister for Manpower will elaborate on these changes at the COS.
- E.14. Budget 2015 will introduce further measures to strengthen savings and income in retirement. There are essentially two sets of measures. First, we will enhance the CPF system. We will **increase CPF contributions** during the working years. In addition, we will make the CPF system more progressive, by **increasing the Extra Interest** feature for smaller CPF balances for older Singaporeans.
- E.15. Second, we will introduce the **Silver Support scheme**. It will help Singaporeans who end up with much less resources than others in their retirement years. It will supplement their incomes, just as Workfare provides systematic top-ups to the incomes of the bottom 20% to 30% of Singaporeans when they are working. Silver Support will complement Workfare as part of the fourth pillar of our social security system. They will supplement incomes, and help mitigate inequalities throughout life.

¹⁶ CPF members will have the additional option of withdrawing up to 20% of Retirement Account savings at the payout eligibility age. They can also choose between three levels of payouts, and corresponding retirement sums to be held in their CPF accounts. At the same time, members will have more certainty on their Basic Retirement Sum, which will keep pace with long-term inflation and provide for some improvements in living standards to ensure adequate payouts in retirement.

Enhancing CPF Savings

Higher CPF Salary Ceiling and Supplementary Retirement Scheme Contribution Cap

- E.16. Both the NTUC and CPF Advisory Panel have proposed that the Government raise the CPF salary ceiling.
- E.17. We will increase the CPF salary ceiling from \$5,000 to \$6,000. Middle-income Singaporeans will be able to accumulate more CPF savings during their working years. The increase will benefit at least **544,000 CPF members**.
- E.18. Based on the new salary ceiling, a 45 year-old worker who earns \$6,000 or more today will save an additional \$60,000¹⁷ by the time he reaches 65.
- E.19. In line with the higher CPF salary ceiling, we will **raise the contribution cap within the Supplementary Retirement Scheme** (SRS), which offers tax incentives to encourage voluntary retirement savings to complement the CPF. (Refer to Annex B-1.)
- E.20. Both changes will take effect from 1 January 2016.

Raising CPF Contribution Rates for Older Workers

- E.21. In recent years, we have seen significantly improved employment of our older workers.¹⁸ Schemes such as the Special Employment

¹⁷ Based on additional contributions to the CPF Special, Medisave and Retirement Accounts only. The Ordinary Account has not been included as the additional contributions can be withdrawn for housing.

¹⁸ The employment rate of residents aged 50 to 64 rose to 71.4% in June 2014, compared to 64.4% in June 2004.

Credit (SEC) and Workfare Training Support (WTS) have encouraged employers to hire them, and invest in training them.

- E.22. We increased CPF contribution rates for older workers in the last few years. I will take the final step to **restore the contribution rates for workers aged 50 to 55** to the same level as those for younger workers, as called for by the NTUC. The contribution rate for these workers will go up by **2 percentage points in 2016** – 1 percentage point from the employer, and 1 percentage point from the employee.
- E.23. For **workers aged 55 to 60**, I will **increase the contribution rate by 1 percentage point from employers**. For **workers aged 60 to 65**, the contribution rate will go up by **0.5 percentage points from employers**. (Refer to Annex B-1.)
- E.24. The changes will take effect from 1 January 2016. The increase in employer contributions will go to the Special Account. The increase in employee contribution will go to the Ordinary Account, and can be used to help them service housing mortgages.
- E.25. I had earlier announced the Temporary Employment Credit (TEC) for employers, for 2016 and 2017. The TEC will help to offset the impact of these CPF changes for employers.

Encouraging Re-employment beyond 65

- E.26. The Special Employment Credit (SEC) provides employers with a wage offset for workers above the age of 50.
- E.27. To promote voluntary re-employment of older workers, we will provide employers with an **additional SEC of up to 3% of wages**

for workers aged 65 and above in 2015. This is on top of the 8.5% wage offset that employers will receive in 2015.¹⁹ The law already requires employers to re-employ eligible workers up to age 65. This measure will encourage employers to continue employing them beyond that age. The measure will cost about \$50 million.

E.28. I will also provide a \$500 million top-up to the SEC Fund, to meet the broader funding needs of the SEC, which caters to workers aged above 50 until the scheme expires in 2016. The Minister for Manpower will elaborate on our measures to help older workers stay employable at the COS.

Enhancing Progressivity through Extra CPF Interest

E.29. We will make the CPF system more progressive, by paying **an additional 1% Extra Interest on the first \$30,000 of CPF balances from the age of 55.** This will take effect from 1 January 2016.

E.30. It builds on top of the existing 1% Extra Interest provided on the first \$60,000 of balances. Hence, given the 4% interest rate on Retirement Account balances, members with lower balances can earn 6% interest. (See Table 1.)

E.31. Around **60% of today's CPF members aged 55 and older would earn 6%** on their retirement savings. And around **80% will earn at least 5%**. It will encourage Singaporeans to retain

¹⁹ The SEC provides up to 8% wage offset for workers aged above 50, and will expire after December 2016. In Budget 2014, we had further announced a temporary 0.5% enhancement of SEC in 2015 to support employers, in view of the increase in older worker contribution rates in 2015.

savings in their CPF accounts, and make top-ups to the CPF accounts of family members. (Refer to Annex B-1.)

Table 1: CPF interest rates for members aged 55 and above from
1 January 2016

CPF Balances	Interest Rate ²⁰
First \$30,000	6%
Next \$30,000	5%
Amounts above \$60,000	4%

E.32. For a lower-balance²¹ member, the additional 1% EI amounts to about a 20% increase in his monthly payout, or about \$40 more each month, for the rest of his life. For a member who sets aside the Basic Retirement Sum of \$80,500 in 2016, his monthly payout will increase by about 6%.

Silver Support Scheme

E.33. The Silver Support Scheme will be a new feature in our social security system. It is a permanent scheme for **both today's seniors and those in the future**. This is unlike the Pioneer Generation Package, which provided special recognition to a unique generation in today's elderly Singaporeans.

E.34. Just as Workfare tops up wages of lower-income Singaporeans during the working years, Silver Support will add to incomes in

²⁰ Based on prevailing interest rates on balances in Retirement, Special and Medisave Accounts. Balances in Ordinary Account can earn up to 4.5% for members aged 55 and above.

²¹ This refers to a 20th percentile active member (age 55 in 2016) who has about \$25,000 balances.

retirement. Together, both constitute the fourth pillar of social security, as I mentioned earlier. They will help mitigate life's inequalities.

- E.35. Silver Support will aim to support the **bottom 20% of Singaporeans aged 65 and above, with a smaller degree of support extended to cover up to 30% of seniors**. This is similar to how Workfare supports the bottom 20% to 30% of Singaporean wage-earners.
- E.36. Silver Support is hence **not only for the neediest** of our elderly. For the truly needy, who have no other source of support, we have the safety net of Public Assistance (PA). If a retired couple qualifies for PA, they can get \$790 per month, plus free medical care.
- E.37. As Silver Support is for Singaporeans above age 65, many of whom may have retired, we cannot solely look at their wages today to determine if they qualify for Silver Support. (This is unlike Workfare which is based on the wages you earn.) To ensure that assistance goes to those **with lesser means**, we will therefore look at three factors in combination – their lifetime wages, the level of household support they have today, and the type of housing they live in:
- a. **Lifetime wages** – How much they earned during their working lives, as reflected in their total CPF contributions over the years. We will consider Singaporeans with lower total CPF contributions before they reached 55.

b. **Household support** – Silver Support is aimed at those seniors in households which have lower incomes.

c. **Housing type** – We will extend Silver Support to those who are staying in 5-room HDB flats and smaller, but with more support for those in smaller flats.

E.38. We cannot look at any one of these factors on its own. For example, it would not be fair to look only at housing type to determine eligibility for Silver Support. Some seniors who live in larger flats had low wages for most of their lives and hence limited savings, and may be living with children who themselves do not earn much. We should not rule them out of Silver Support.

E.39. We expect that the **majority of those living in 1- and 2-room flats** will receive Silver Support, with a **smaller proportion of those living in larger HDB flats** qualifying. Those who have been homemakers for a good part of their lives and hence earned little will qualify, if their families are not well off.

E.40. Silver Support will be **paid quarterly**, similar to Workfare. It will provide a **supplement of \$300 to \$750 every quarter** for eligible seniors. The **average recipient will get \$600 per quarter**. Silver Support recipients who live in smaller flats will receive more than those in larger flats. All the seniors who qualify for Silver Support will **receive these supplements for life**, as long as they remain eligible.

E.41. Let me give two examples of Singaporeans who should benefit. The first is a retired couple living in a 2-room flat. The husband

started out in the 1970s earning a fairly low wage of about \$200. With consistent work and wage increases over the course of his working life, he could have contributed a total of about \$50,000 to his CPF. (His current CPF balance would be lower, as he has probably tapped on his CPF to buy their flat.) His wife was a homemaker for much of her life, and has little CPF. They should be able to receive up to **\$750 per person per quarter, or \$1,500 for the two of them together**. That's equivalent to **\$500 each month for the couple**.

- E.42. Another example is a lower-income retired couple who live in a **4-room flat**. While 4-room flats are worth more, they may be staying with their children and grandchildren, and the household income per member may be low. They may each be able to receive **\$450 every quarter, or \$900 for the couple together**. **That is the same as \$300 each month for the couple**.
- E.43. Overall, we expect about **150,000** of today's elderly to receive these Silver Support top-ups.

Fairness in Retirement: A New Compact

- E.44. Silver Support reflects the **values we must preserve** as an inclusive society.
- E.45. It is **the fair thing to do**: helping fellow citizens who end up with much less than others in their retirement years. Many would have contributed in their own way during their prime years, whether at work or at home raising the family. Silver Support also complements the other schemes we have introduced to help the elderly, particularly in **healthcare assurance**, as well as the array

of **voluntary and community initiatives** that make us a caring and tightly knit community.

- E.46. What Silver Support aims to do is to **supplement incomes in a modest but meaningful way**. It **should not substitute for other sources of income**. Many retirees get support from their children – and strong and caring family ties should remain part of our social ethic. Many can also choose to get cash by unlocking the value in their homes, such as by using the enhanced Lease Buyback Scheme or the Silver Housing Bonus, or by renting out a room or the whole flat. Often, the family quite reasonably prefers to keep the home, with the children choosing to support the parents instead.
- E.47. Silver Support is estimated to cost about \$350 million in the first full year. Together with Workfare, the **Government will be spending about \$1 billion a year on this system of progressive social support**. The costs will however rise in the next decade as more Singaporeans turn 65, while many below 65 remain in the workforce and hence qualify for Workfare. In other words, the cost of Silver Support will rise, but it will be a while yet before the cost of Workfare comes down.
- E.48. We cannot rush the implementation of Silver Support. It is a major scheme for the long term, and involves a large number of Singaporeans. We have to properly identify those who are eligible and develop the necessary systems to implement the scheme. What I described are the basic parameters and I have given you the examples. The assessment for Silver Support will however be

done automatically, so there is no need for any application. MOM will be ready to implement Silver Support **around the first quarter of 2016**. MOM will provide the final details closer to implementation.

- E.49. In the interim, however, we will introduce an **extra GSTV – Seniors' Bonus** in 2015, for seniors aged 65 and above and who stay in HDB flats, which I will describe later.

F. SUPPORTING FAMILIES, STRENGTHENING COMMUNITY

- F.1. Budget 2015 also provides a package of support for families with children. In addition, as part of SG50, it provides strong encouragement for the spirit of giving in the community.

Support for Growing Years

Pre-school

Enhance Affordable, Quality Child Care

- F.2. We have put in place substantial and enhanced subsidies for families with pre-school children. Today, lower-income families pay as little as \$3 per month for child care, and \$1 per month for kindergarten. We have also created many more affordable and quality pre-school places by expanding the Anchor Operator (AOP) scheme.
- F.3. We will now introduce a new **Partner Operator (POP) scheme** to complement the AOP scheme. Child care operators on the scheme will have to **commit to keeping fees affordable, developing their teachers, and enhancing quality**. Parents will benefit from lower fees than the centres run by these Partner Operators currently charge, and higher quality care.
- F.4. To illustrate, a household with median income whose child is enrolled in a centre with the median monthly fee of \$900 today, currently pays \$500 a month after receiving a subsidy of \$400. If the centre comes onto the POP scheme, the **household will pay**

around \$100 less, and can look forward to quality improvements.

F.5. Currently the AOP scheme accounts for one-third of the pre-school sector, comprising both child care and kindergartens. Through a combination of the AOP scheme and the new POP scheme, we aim for about **50% of pre-school children to benefit** from enhanced government support for more affordable and quality pre-school by 2020.

F.6. This is estimated to cost \$250 million over five years.

F.7. The Minister for Social and Family Development will provide more details at the COS.

Top-up to the Child Development Account

F.8. In addition, we will **help families pay for pre-school fees** through a top-up to the Child Development Accounts (CDAs) of every Singaporean child aged six and below in 2015. Those currently without CDAs can open accounts and receive the top-up. The majority of children will receive \$600. (See [Table 2](#)).

Table 2: Top-up to the CDA

Age in 2015	Annual Value (AV) of Home as at Dec 2014	
	Up to \$13,000	\$13,001 and above
0 to 6	\$600	\$300

F.9. For a middle-income household, the top-up of \$600 is sufficient to **cover more than a month of child care costs** after subsidies.²²

F.10. The top-up will cost \$126 million and benefit 230,000 children.

Primary to Post-Secondary Education

F.11. While education is already heavily subsidised for Singaporeans, we will provide further help with education costs.

Waive Exam Fees for Singaporean Students

F.12. We will henceforth waive fees for national examinations (PSLE, GCE 'N', 'O', and 'A' levels) for Singaporean students in Government-funded schools.

F.13. Students and their families will save up to \$900 for their national examinations from primary school to pre-university.

F.14. In addition, we will waive examination fees for Singaporeans enrolled full-time in our ITE and Polytechnics.

Top-up to Edusave

F.15. We will provide a \$150 top-up to the Edusave Accounts of Singaporean students aged 7 to 16, on top of the annual contribution of up to \$240. (Refer to Annex B-2.) Students above the age of 16 who are still in secondary school will also receive the top-up.

F.16. These are meaningful top-ups. For example, the \$390 that will go into a secondary school student's account this year will cover most of the fees for a short Outward Bound Singapore course.

²² Based on median industry fee of \$900 per month, with a subsidy of \$400 per month.

F.17. This will benefit around 400,000 students.

Enhance Financial Assistance

F.18. We will also enhance the MOE Financial Assistance Scheme (FAS). Students on the FAS currently do not pay school fees and standard miscellaneous fees, and benefit from free textbooks and uniforms.

F.19. We will now include a **transport subsidy** that will cover at least **half of students' transport costs**. This will cover public transport for all students, as well as school buses for primary school students.

F.20. We will increase the **annual grants for school-based financial assistance** for the next three years. This will give School Advisory and Management Committee more resources to provide further targeted assistance to needy students.

F.21. The initiatives will also be extended to our Special Education (SPED) schools, appropriately adjusted to meet their specific needs.

F.22. The Minister for Education will provide more details at the COS.

F.23. Our Self-Help Groups (SHGs) have been doing good work, helping children from needy families to progress. To enable them to do more, I will provide an additional \$6 million grant to the SHGs over the next two years to support them as they expand their programmes and their reach.

Top-up to the Post-Secondary Education Account

F.24. We will provide a top-up to the Post-Secondary Education Account (PSEA) of Singaporeans aged 17 to 20 to assist households in saving for tertiary education. The majority will receive \$500. (See [Table 3.](#))

Table 3: PSEA Top-up

Age in 2015	Annual Value of Home as at 31 Dec 2014	
	Up to \$13,000	\$13,001 and above
17 to 20	\$500	\$250

F.25. These top-ups too are meaningful. For students from lower-income families entering Polytechnic in 2015, the PSEA top-up, together with existing bursaries, will offset a full year of the diploma course fee. For ITE students, the top-up will cover more than one year of course fees.

F.26. This top-up will benefit 160,000 Singaporeans.

F.27. All in, these measures for students from the primary to post-secondary level will cost about \$250 million over the next three years.

Fostering a Spirit of Giving

F.28. On the occasion of our Jubilee Year, we should take the opportunity to engage in giving to the causes that we feel matter to us as Singaporeans.

F.29. Charitable donations have risen significantly in recent years. Individual donations in 2014 reached an all-time high of \$1.25

billion, or a 30% increase from 2008.²³ Our enhanced tax incentives for donations have helped. In other words, the benefit hasn't gone to the donors, but has led to more donations.

F.30. We recently announced an extension of our matching grant support for the Care & Share Movement till 31 Mar 2016, and the Government is providing an additional grant of \$250 million. This doubles the total matching grant for Care & Share to \$500 million. We will do more to encourage giving this year.

Enhanced Tax Deduction for Donations in 2015

F.31. We will increase the tax deduction from 250% to 300% for donations made in this Jubilee Year. We will also extend the 250% tax deduction for donations, which was to expire at the end of 2015, for another three years till the end of 2018.

F.32. Taken together with the Care & Share matching grant support, our measures effectively multiply every dollar that the community is giving. **For every dollar that you donate in 2015, the Government is more than doubling it.**²⁴

Encouraging a Culture of Giving from Young

F.33. We want to encourage the spirit of giving and to raise the awareness of community causes in our students from young. As part of SG50, schools will work with their students to identify suitable beneficiaries as part of values-in-action education. The

²³ Based on National Volunteer & Philanthropy Centre (NPVC) 2014 Individual Giving Survey.

²⁴ Including the enhanced tax incentives, the Government will be contributing up to \$1.60 for every dollar donated. Further, as donations to our Autonomous Universities can receive up to 3:1 matching grants from the Government, the Government contributes up to \$3.60 for every dollar donated to them.

idea is for them to choose IPC charities – **not only to raise funds for them, but to do projects with them in the community.**

F.34. To support this effort, the **Government will donate \$20,000 to each school** to use for the causes that they identify. This initiative will be extended to Polytechnics and ITE, for which the Government will donate \$150,000 and \$250,000 respectively on behalf of each institution.

Other Measures Affecting Singaporean Households

F.35. We will provide in this Budget some additional support to help Singaporean families with their costs of living. We will also take the opportunity to make several tax changes.

Enhancements to GST Voucher scheme

F.36. The GST Voucher (GSTV) – Cash is one component of the permanent GSTV scheme that we introduced in 2012. The other components are the GSTV – Medisave and GSTV – U-Save. Taken together, the GSTV ensures that the GST is not a burden for the lower-income group.

F.37. To help lower-income households with costs of living, we will be **increasing the quantum for GSTV – Cash by \$50** across the board from 2015 onwards (See Table 4). This means that eligible individuals will receive up to \$300 in GSTV – Cash. This will benefit 1.4 million Singaporeans.

F.38. We will also provide our seniors **aged 55 and above** with a GSTV – Seniors' Bonus in 2015 to help them with their daily expenses.

This will effectively double the GSTV – Cash that they usually receive. They will therefore get **up to \$600**.

F.39. Furthermore, for those **aged 65 and above** and living in **HDB flats**, we will give an additional \$300 this year. They will therefore get **a total of \$900**. This will be helpful to these older seniors while we work out the details and implementation of the permanent Silver Support scheme, which will begin next year. This additional payment in the meantime will cover a larger group than Silver Support.

Table 4: GSTV Enhancements

GSTV – Cash

Assessable Income for YA 2014 ≤ \$26,000	Annual Value of Home as at 31 Dec 2014	
	Up to \$13,000	\$13,001 to \$21,000
Aged 21 and above	\$300 (previously \$250)	\$150 (previously \$100)

Additional GSTV – Seniors’ Bonus for 2015

Assessable Income for YA 2014 ≤ \$26,000	Annual Value of Home as at 31 Dec 2014	
	Up to \$13,000	\$13,001 to \$21,000
Aged 55 to 64	\$300	\$150

Aged 65 and above	\$600	
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F.40. Taken together, these measures will cost Government an additional \$385 million in 2015.

Service and Conservancy Charges Rebates

F.41. To provide further support for cost of living, we will provide one to three months of Service & Conservancy Charges (S&CC) rebates. 1- and 2-room HDB households will receive a total of three months of rebates for this year, while 3- and 4-room households will receive two months of rebates. This will cost the Government \$80 million.

Personal Income Tax Rebate

F.42. To help middle-income taxpayers, I will provide a **Personal Income Tax Rebate of 50%**. I have set the cap at \$1,000 so as to ensure that the benefits go mainly to the middle- and upper-middle income groups. This will be for the YA 2015 (i.e. for income earned in 2014).

F.43. 1.5 million individuals will benefit from the tax rebate. It will cost the Government \$717 million.

Changes to Indirect Taxation

F.44. In this Budget, I will make a few changes to our indirect taxes to support two objectives. First, I will take further steps to reduce vehicular carbon emissions and promote a greener living

environment. Second, I will provide support for middle-income families in their cost of living by reducing the foreign domestic worker concessionary levy.

Carbon Emissions-based Vehicle Scheme

- F.45. In 2013, we introduced the Carbon Emissions-Based Vehicle Scheme (CEVS) to encourage the take-up of carbon-efficient vehicles.
- F.46. We are encouraged by the results after two years – over 65% of the cars registered in 2014 qualified for CEVS rebates whilst about 5% paid the surcharge.
- F.47. I will **extend the CEVS for two years**, from 1 July 2015 to 30 June 2017, with some refinements to encourage a further shift to greener cars. The details are in the Annex, and will be discussed by the Minister for Transport at the COS. (Refer to Annex A-6.)
- F.48. Related to this, we will enhance the Early Turnover Scheme (ETS) to further encourage the replacement of older commercial vehicles with greener vehicles that meet higher emission standards from August 2015. The Minister for the Environment and Water Resources will provide more details at the COS.

Petrol Duty and Road Tax Rebate

- F.49. To encourage less car usage and reduce carbon emissions, I will **raise petrol duty rates which have remained unchanged since 2003**. The duty rates for premium grade petrol will be increased by \$0.20 per litre, and intermediate grade petrol by \$0.15 per litre. With falling oil prices, pump prices after the petrol

duty changes would remain lower than the levels in the last two and a half years. These changes will take effect today, and yield about \$177 million a year.

- F.50. To ease the transition to the higher petrol duties, I will provide a **one-year road tax rebate** of 20% for cars, 60% for motorcycles, and 100% for the small number of commercial vehicles using petrol. The road tax rebate will offset about two-thirds of the impact of the petrol duty change on intermediate grade petrol for a typical car. The one-year road tax rebate will cost Government \$144 million.

Foreign Domestic Worker Levy Concession

- F.51. We will reduce the foreign domestic worker concessionary levy from \$120 per month to \$60 per month. We will also extend the concessionary levy to households with children aged below 16, up from below 12 today. These changes will provide greater support for middle-income families who are taking care of their children and elderly parents.
- F.52. The reduction will take effect from 1 May 2015, and will benefit 144,500 households.
- F.53. This will cost about \$125 million per year.
- F.54. The annual savings from the reduced maid levy amount to \$720. The **savings will be much larger** than the rise in petrol duties if the same family also drives a car. (For a 2,000 cc car, the extra

cost will be about \$360 a year on average.²⁵ For a 1,600 cc car, the cost will be lower at about \$230 a year on average.²⁶)

Enhanced Support for Singaporean Families

F.55. Let me illustrate how our policies will add up for Singaporean families. The Annex provides examples (Refer to Annex B-3), but I will summarise here the additional support that we are providing for our **middle-income families**, to help them meet their aspirations and deal with the cost of living.

- a. First, we are supporting **families with children and elderly**:
 - i. Expanding affordable and quality child care through our schemes for Anchor Operators and new Partner Operators;
 - ii. Lowering the cost of schooling by removing examination fees permanently, and through additional top-ups to the CDA, Edusave and PSEA; and
 - iii. Halving the foreign domestic worker concessionary levy from now on.
- b. Second, besides families with children and elderly, we are providing stronger support for those who have started working or are in the **middle of their careers** to pick up new or deeper skills and progress in their careers. They will enjoy SkillsFuture Credits, the new SkillsFuture Awards, and

²⁵ Assumes premium grade petrol is used, average car population annual mileage of 17,800km and average fuel efficiency of popular models of 2,000cc cars (10litres/100km per vehicle).

²⁶ Assumes intermediate grade petrol is used, average car population annual mileage of 17,800km and average fuel efficiency of popular models of 1,600cc cars (8.6litres/100km per vehicle).

significantly enhanced subsidies for educational and training courses;

- c. Third, we are also helping them **enhance their savings for retirement**, through the increase in the CPF salary ceiling, higher contribution rates when they are in their 50s, and Extra Interest in the later years;
- d. Fourth, they will receive **support for costs of living**: both from the reduced maid levy and educational costs I mentioned earlier, and from the income tax and S&CC rebates.
- e. Fifth, many families will also benefit from the enhanced support for our seniors, through the **extra GSTV – Seniors’ Bonuses** this year. Some of their parents may also benefit from the new Silver Support Scheme that starts next year.

G. PRESERVING A FAIR AND SUSTAINABLE FISCAL SYSTEM

Our Future Expenditure Needs

- G.1. We expect government expenditure to increase over the medium to long term. It will be driven mainly by three areas:
- G.2. First, healthcare. I spoke earlier of our significant expansion in **healthcare** infrastructure, such as the increase in public hospital, community hospital, and nursing home capacity by 2020. We have also enhanced subsidies at Specialist Outpatient Clinics, and Intermediate and Long term Care. We will now be extending significant subsidies for low- and middle-income Singaporeans for MediShield Life premiums. Operating expenditures will thus also increase as our population gets older and as healthcare consumption goes up.
- G.3. While we had set aside monies last year to fund the full projected cost of the Pioneer Generation Package, the underlying healthcare subsidies received by all Singaporeans will need to be funded from annual budgets.
- G.4. Altogether, healthcare spending is expected to rise from over \$9 billion in 2015 to over \$13 billion in 2020. It will continue to increase beyond this decade.
- G.5. Second, improvements to our **public transport**. As the Senior Minister of State for Transport has just stated this afternoon, about \$14 billion has been deployed to the public transport

system over the past five years, and another \$26 billion has been committed for the next five years.

- G.6. Third, the development of **Changi Airport T5**. This will be a major outlay for this Government over the next 10 to 15 years. It is right and prudent to set aside monies today for this large investment, while we have the resources to do so.
- G.7. We will therefore set up a new Changi Airport Development Fund (CADF) and make an initial injection of \$3 billion into the fund. This can be topped up subsequently when our fiscal position allows.
- G.8. Our spending on healthcare, public transport and Changi Airport will be complemented by other essential expenditures such as enhanced **domestic security** and the **rejuvenation of our neighbourhoods**. We are also spending more through education and SkillsFuture to build the human capabilities that we need for the future, and **develop every Singaporean's potential**.
- G.9. Together these initiatives will enhance the **quality of life** in Singapore and develop **sustainable competitive strengths** for our economy and jobs. We must ensure that we are able to finance these growing expenditures.
- G.10. But equally important, we must ensure that we control costs in the years to come. Last year, I spoke about how the Government will seek to control healthcare costs. As we embark on large infrastructural projects, we are placing great emphasis on optimising project design and cost efficiency. Overall, we must

spend judiciously, achieving value-for-money and providing subsidies to Singaporeans in a fair and targeted manner.

G.11. However, government spending will inevitably rise. We project overall spending to reach about 19% to 19.5% of GDP on average over the next five years. This is about 1% of GDP higher than the revenues we have today.

Including Temasek in the Net Investment Returns (NIR) Framework

G.12. It is therefore necessary that we take steps now to strengthen future revenues, to put Singapore on a firm fiscal footing for the rest of this decade.

G.13. The first enhancement we are making is within the NIR framework. The NIR framework was implemented in 2009. Under the framework, the Government is allowed to spend up to 50% of the expected long term real returns on its net assets managed by MAS and GIC. It was a significant change from the old Net Investment Income (NII) framework, under which the Government could only spend from actual investment income, comprising dividends and interest. In contrast, the new NIR framework allowed the Government to spend based on expected long-term returns, including both realised and unrealised capital gains.

G.14. The NIR framework was intended to be eventually applied to the expected returns of all three investment entities - GIC, MAS and Temasek. We proceeded with GIC and MAS first.

- G.15. We had deferred Temasek's inclusion in the NIR framework in 2008, and indicated that we would review this after some years. There were two reasons. First, there were no established methodologies for projecting the long-term expected real return on its portfolio, given its investment approach of taking concentrated stakes and making direct investments. Second, Temasek's investment strategy was still evolving, having begun to invest in more geographies and sectors since 2002.
- G.16. We are now ready for our **spending rule to be based on the total expected returns of all three investment entities, including Temasek**. We have worked with Temasek to develop an approach to project its expected long-term returns, taking into account the nature of its investment portfolio, although its equity-only portfolio will continue to be more volatile and subject to more pronounced investment cycles than the MAS and GIC portfolios. Including Temasek in this framework would enable us to spend based on its total expected returns, including realised and unrealised capital gains, and not just actual dividends paid by Temasek to the Government.
- G.17. Our fiscal needs have also grown since 2008. When we amended the Constitution then, we were able to derive significantly more resources for our spending on investments in education, learning and training, as well as innovation and R&D for the future. It is now timely that we have this further enhancement to include the expected returns of Temasek in the NIR framework. The move will bolster our fiscal resources at a time when we have to fund

long-term critical infrastructure and develop the human talent and capabilities to secure our future. It continues to ensure that we spend from our reserves in a sustainable manner, so as to **benefit both current and future generations.**

G.18. We aim to present a Constitutional Amendment Bill to Parliament later this year.

Personal Income Tax

G.19. On top of deriving these additional resources, we have to review our domestic taxes, so that we bolster our fiscal position for the medium to long term.

G.20. Our philosophy is, first, to sustain a **vibrant economy** that will help to improve Singaporeans' lives. Keeping our economic vitality is central to our social strategies, so that we have fruits to redistribute and share to make an inclusive society.

G.21. Second, we should have a **fair and equitable system of taxes and benefits.** It means that everyone has to pay some tax, and everyone is hence contributing to the public services and the investments in our people, heartlands and economic future that we all benefit from. The majority of Singaporeans do not pay income tax, but they pay GST. However, while everyone contributes something for a better Singapore, those who are better-off should contribute more.

G.22. Third, we have to **keep the tax burden on the middle-income low,** so that they get to keep what they earn, as much as possible. In several advanced countries, taxes on the middle-

income are much higher than in Singapore, in order to fund higher social benefits: not just for the lower-income but often for everyone else including the upper-middle income and the rich. Our philosophy is to keep the burden on the middle-income low, and target benefits at the most important needs of the poor and middle-income groups. Taken overall, this is a better deal for middle-income households.

- G.23. Hence, we have designed our system such that we have **lower overall taxes than most countries, but nevertheless maintain a highly progressive regime**. The higher-income group makes a significant net contribution into the system, which enables the lower-income group in turn to get significantly more benefits than the taxes they pay. In other words, when we add up all our taxes – GST, income, property and other taxes – and compare them to benefits received, the low income group gets more benefits than the taxes they pay, while the high income tax pays more taxes than benefits received.
- G.24. I have spoken in the past few years about the need to build up our revenues, but to do so in a way which keeps our system of taxes and benefits as a whole progressive.
- G.25. Our first move was to make our **property tax regime more progressive**. In Budget 2010, we moved from a flat owner-occupier tax rate for residential properties and introduced progressive tax rates which tax properties with higher annual values more. In Budget 2013, to further increase progressivity, we added more tiers of tax rates and we also introduced progressive

tax rates for non-owner occupied residential properties. These changes were made over two years, with the latest tax rate schedule taking effect from 1 January 2015.

- G.26. I will now make a further adjustment in our tax system, which is to **raise the personal income tax rates of our top income earners**. It will take effect in YA 2017.
- G.27. We have a competitive personal income tax regime, much lower than most countries. It is also, as I have explained, a progressive system. The top 10% of our taxpayers pay slightly over 80% of personal income taxes.
- G.28. Nevertheless, we have been making our income tax regime more progressive in recent years. In Budget 2011, we **reduced taxes significantly for the middle-income**, without changing the tax rates for high-income earners. We have also introduced and enhanced **negative income taxes for our lower-income** groups. Workfare was introduced in 2007 and enhanced in 2012. Likewise, this year we will be introducing **Silver Support** for those in retirement who had low incomes.
- G.29. It is **fair that this enhanced support for those with low incomes should come chiefly from revenues contributed by the high-income group**. Those with higher incomes have also been seeing stronger growth in incomes than the average Singaporean in recent years.
- G.30. We have considered this carefully, and concluded that there is a need to increase slightly our top marginal income tax rate.

- G.31. I will raise the marginal tax rates that affect the **top 5% of our income earners**. I will raise the top marginal rate by two percentage points, from 20% to 22% for the highest income earners, with a chargeable income above \$320,000. I will also make smaller adjustments that will raise income tax for the others in the top 5%. It will apply starting with income earned in 2016, and on **taxes to be paid in 2017**.
- G.32. This tax increase for high-income earners will **enhance progressivity and strengthen future revenues**. This is a **calibrated move**. We have assessed that it should not significantly dent Singapore's competitiveness.
- G.33. **We cannot take tax competitiveness lightly**. The international competition for talent is real, for both Singaporeans and foreigners. Many Singaporean professionals are in fact working abroad, such as in Hong Kong. Of course, tax rates are not the only way we stay competitive. **Singapore has other key strengths** including our culturally diverse and cohesive society, a family-friendly environment, clean air especially compared to other Asian cities, and a world-class healthcare system.
- G.34. But it would be naive to think that we can keep raising tax rates without affecting our competitiveness. We **must remain an attractive place for world-class teams to be in Singapore with Singaporeans at the core**, and to keep our place in the world. This will keep our economy vibrant, and retain talent, so that all can contribute to building a better Singapore.

G.35. Let me now illustrate the impact of the tax changes. It will affect the top 5%, who earn at least \$160,000, but the increases being larger for the highest income earners. This is because our marginal income tax rates rise significantly towards the top end of incomes.

- a. For **someone earning \$250,000 a year**, his effective tax rate will increase from 8.3% to 8.5%, with **additional tax payable of \$400**.
- b. A higher-income earner with income of **\$800,000** will see his effective tax rate increase from 16.0% to 17.4%, with additional tax payable of about **\$11,000**.
- c. A top income earner with income of **\$1.5 million** will see his effective tax rate increase from 17.9% to 19.5%, which leads to an increase in tax of about **\$25,000**. (Refer to Annex A-6 for the full schedule.)

Table 5: Changes to Personal Income Tax (Effective YA 2017)

Assessable Income (\$)	Chargeable Income (\$)²⁷	Additional Tax Payable (\$)	Current Effective Tax Rate (%)	Increase in Effective Tax Rate (%)
250,000	200,000	400	8.3	0.2
800,000	750,000	10,800	16.0	1.4
1,500,000	1,450,000	24,800	17.9	1.6

²⁷ This refers to assessable income after deducting personal reliefs of say, \$50,000

- G.36. The change to the top PIT rates is expected to raise additional revenue of **\$400 million** a year when it comes into effect.
- G.37. When we put it all together, this change – which takes effect in 2017 – as well as including Temasek in the NIR framework, will provide additional revenues equal to about **1% of GDP annually** for the Budget over the next 5 years.
- G.38. Based on current projections, **the revenue measures we have undertaken will provide sufficiently for the increased spending needs we have planned for till the end of this decade.** This must remain our approach – ensuring that we always have the resources to meet our commitments.

FY15 Budget Position

- G.39. For FY2015, the Overall Budget Balance is projected to be a deficit of \$6.7 billion (1.7% of GDP). However, this deficit comes about mainly because of the \$6 billion we are setting aside for future investments: in particular, \$3 billion into the Changi Airport Development Fund, and significant top-ups for the Special Employment Credit Fund, National Productivity Fund, and the National Research Fund. If we were to exclude these funds set aside for future investments, the Budget for FY2015 will in fact be quite close to balance.
- G.40. We have sufficient surpluses from previous years of this term of Government to enable us to invest ahead and fund the overall deficit in FY2015. There is no draw on past reserves.

H. CONCLUSION

- H.1. Madam Speaker, let me conclude by talking about the spirit of what we are seeking to achieve as nation.
- H.2. Vincent Poon, 69. He taught himself to swim when he was six, at the first public pool in Singapore, the old Mount Emily swimming pool. When he went to Beatty Secondary School, he became the swimming team captain. Later, he received a long-distance swimming award – he swam more than 20km, non-stop over 12 hours. Vincent was also a serious judoka, obtaining a black belt (second dan). Unfortunately he was seriously injured in a road accident, which gave him a permanent limp. He decided to become a swimming coach, starting at the old Royal Naval Officers' Club in Woodlands in 1964. Later he moved to Farrer Park Swimming Pool and then Tanah Merah Country Club.
- H.3. He has coached countless young Singaporeans over the years. Some have gone on to become exceptional swimmers. One of these was Joseph Schooling, our Asian Games Gold medallist and Olympian.
- H.4. Vincent was Joseph's first swimming coach. He taught him for five years when he was a child. He would often dive underwater to watch Joseph and help him improve his technique. So when Joseph's current coach Eddie Reese – former coach of the US Men's Olympic Swimming Team – recently described Joseph as “the closest human to a dolphin under water”, Vincent knew how it all began.

- H.5. That's really the spirit of what we are creating in Singapore. Finding something that we think we can be good at, persevering over the years and taking pride in it, and passing the passion on to the next generation, so that we keep moving up.
- H.6. Madam Speaker, I beg to move.