Invest

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What if you can't afford to retire?

Options for low-income elderly folk

By Lorna Tan, Senior Correspondent

The reality of just how much it costs to retire is sinking in for many people.

As a result, more expect not to be able to retire completely - they will need to turn to part-time jobs in their golden years.

This was a key finding in a recent survey by Russell Investments and The Nielsen Company on how Singaporeans are planning for their retirement.

The findings indicated that about 70 per cent of the more than 500 respondents believe they will need some part-time work to supplement their retirement income.

Singapore's rapidly ageing population is a cause for concern, with the number of people aged 65 and older expected to treble to 900,000 in 20 years, from about 300,000.

Adding to the bleak picture: The survey indicated that only half of Singaporeans who have not reached retirement age have made financial plans for their nest eggs.

It is no wonder that experts constantly emphasise that when you fail to plan, you plan to fail. But for those who do not have time on their side and have yet to start mapping out their plans, not all hope is lost.

The Sunday Times looks at the income options available to low-income elderly people, particularly those with no financial plans. Some of these options look at the flat as an asset, as well as a source of rental and retirement income.

- **Lease Buyback Scheme (LBS)**

Launched on March 1 last year, the scheme allows low-income elderly Singaporeans living in three-room and smaller flats to monetise their flats to supplement their retirement needs.

It is believed that these households need more financial help, as they are unlikely to be able to take advantage of other options such as downsizing to a small flat or subletting a room.

Under the scheme, the HDB will buy back the tail end of a flat's 100-year lease at market valuation, leaving a 30-year lease for the owner. For example, if a flat has 70 years left, the HDB buys 40 years of the lease from the owner. It pays the market rate for the 40-year lease and this money goes to the CPF Life national annuity scheme in the flat owner's name. He will then receive a monthly income stream for life.

According to a study last year on unlocking housing equity for retirement by Dr Ngee-Choon Chia and Dr Albert Tsui, a three-room flat which is now worth $236,000 has an estimated housing value, unlocked from a 40-year lease, of about $109,000 at present.

The monthly annuity payouts from CPF Life through the buyback of the three-room flat is $694 to $724 for a man and $620 to $650 for a woman. Monthly payouts for women are lower than for men because of the longer life expectancy of women, on average.

Both the study's authors are from the economics department at the National University of Singapore (NUS).

To be eligible for LBS, the homeowner must be aged at least 62, have enjoyed only one housing subsidy and must have occupied the flat for at least five years, among other conditions. If the owner dies before his lease runs out, his family gets the refund of the balance.

At the start of this month, the scheme was broadened to include those who previously owned four-room or bigger flats.

It also includes those with outstanding housing loans exceeding $5,000, but who are able to buy an annuity under CPF Life for at least $60,000 with the HDB payout. Previously, the household had to have less than $5,000 outstanding on a home loan.

With the revision in rules, the number of elderly households that stand to benefit from LBS has risen to 34,800 or 82 per cent of elderly households in three-room and smaller flats.

One key advantage of the LBS is that you get to live in your home and at the same time receive a lifelong income.

Mr Ben Fok, chief executive of Grandtag Financial Consultancy, says: 'This option is viable for owners who are comfortable to stay where they are and do not wish to move or downgrade to a smaller flat. They prefer not to sublet their flat as privacy may be important to them.'

The downside is that upon the death of the retiree, he may not leave behind anything for his loved ones. In Asian culture, this may not be well accepted, says Mr Christopher Tan, chief executive of wealth management company Providend.

And retirees may also not like the idea that the house they are living in no longer belongs to them.

Mr Leong Sze Hian, president of the Society of Financial Service Professionals, however, believes that the owner will be worse off under this option.

He believes that HDB flats will be worth more 30 years down the road. After all, they have always increased in value historically, as old flats may be selected for en bloc redevelopment. Under this programme, the residents of affected blocks will be offered replacement flats. In fact, he notes that older flats have generally appreciated more, as they are in mature estates with more amenities.

Based on an annual price appreciation of 5 per cent for an HDB flat, Mr Leong works out that a flat valued at $200,000 now will be worth $864,388 in 30 years.

- **Subletting**

Another viable option is for elderly people to sublet their rooms. Mr Leong says this option is suitable for the retiree who wants to grow old in his own flat and still have some rental income.

According to the NUS study, about seven in 10, or 74 per cent, of the elderly prefer to 'age-in-place'.

The retiree can also opt to sublet his entire flat by moving in with his children. One key advantage of this is that the appreciating equity of the flat is retained by the flat owner, adds Mr Leong.

Mortgage consultancy Housing LoanSG.com founder Dennis Ng prefers this option to LBS, as he believes it is possible to rent out a room for $400 to $500 a month while the elderly person still retains ownership of the home.

Mr Fok cautions, however, that the owner may have to pay income tax for rent collected.

Of course, the inconvenience of having strangers in the house cannot be avoided. The owner will have to contend with losing some degree of privacy as well as putting up with strangers who may have different lifestyle habits.

Says Mr Tan: 'Not only is your privacy being intruded upon, but your whole life may be disrupted too. You share his friends if he brings them back, and you have to share the kitchen, the bathroom, the TV set and more. I am not sure whether a retiree is willing to sacrifice so much during his golden years.'

- **Downsizing**

Another option is for elderly people to sell their flats and downgrade to smaller flats or to HDB studio apartments.

According to the NUS study, significant sums will be cashed out if elderly people downgrade to smaller units. On average, $79,000 or $132,000 can be cashed out by downgrading from four-room to three-room or two-room flats, respectively. The sums could be even higher now, given the current trend of appreciating HDB prices.

If, say, $79,000 is placed in an annuity, a man can get a monthly payout of $502 to $526, and a woman can get $450 to $472 a month, for life.

If the elderly person opts to downgrade to an HDB studio apartment, which costs less than $100,000 currently, the cash proceeds would be even higher, says Mr Ng.

Most financial experts agree that downsizing seems to be the best financial option. After all, most retirees will conclude that they do not need to live in a big flat upon retiring.

The advantages are clear, says Mr Tan.

'You may get some cash for selling your bigger house and buying a smaller one, and at retirement, you do not have to spend so much energy cleaning the bigger premises. At the same time, expenses such as utility costs are lower with a smaller apartment.'

Mr Fok likes this option because it can help to reduce one's debt if there is an outstanding mortgage.

'You clear your debt and use the proceeds to buy a smaller home and be debt-free,' he adds.

- **Working longer**

Mr Tan believes that the real option is really retiring later and working longer. But in order to do that, he proposes the following:

- Accept that you have to work through your golden years. This is really a mindset shift, and you must make this shift at least five years before your planned retirement age or before you leave your current place of work.

To suddenly realise that you have to work longer without mentally preparing for it may be very tough to accept for a retiree.

- Keep yourself healthy. Many may want to work but find that they no longer have the health to keep working.
- Keep yourself relevant to the corporate world. Decide what is needed in the job market now; find something you would like to do and go for training. After all, you are bound to want to do something that you like, so it is best to start preparing yourself early.
- If you want to go into business, prepare a business plan and do a cost-benefit analysis. Ask yourself if you can afford to lose your money.

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