

## Budget 2014

# Opportunities for the Future, Assurance for our Seniors

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## **A. Economic Performance**

- A.1. Madam Speaker, I beg to move, that Parliament approve the financial policy of the Government for the Financial Year 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2015.

### **FY2013 Fiscal Position**

- A.2. Our Budget for FY2013 is expected to record an overall surplus of \$3.9 billion (or 1.1% of GDP) for FY2013. This is higher than the surplus of \$2.4 billion (or 0.7% of GDP) we budgeted a year ago.
- A.3. A few factors led to this higher surplus. On the expenditure side, we had temporary delays in implementation of public infrastructure projects. For example, there were unexpected delays in the construction of the Downtown Line due to the insolvency of one of the contractors.
- A.4. Our revenues were also boosted by higher vehicle quota premium (VQP) collections, resulting both from a higher-than-expected number of vehicle de-registrations and hence more replacement COEs being issued, as well as more commercial vehicles being renewed. Secondly, stamp duty collections did not fall as much as expected.
- A.5. The stronger fiscal surplus in FY2013 was mainly due to cyclical factors. They will not last, and we should see a tighter budget position in the coming years.

### **Economic Performance and Outlook**

- A.6. The Singapore economy grew by 4.1% in 2013, up from 1.9% a year earlier, supported by a gradually improving external environment and strong domestic construction growth.
- A.7. The global outlook for 2014 is uncertain. The advanced economies are gradually recovering, while the emerging economies are slowing. However, the odds are against a sharp slowdown in the global economy. MTI hence expects the Singapore economy to grow by 2% to 4% in 2014.

## **Employment and Wages**

- A.8. Our labour market remains close to full employment. The unemployment rate for citizens fell to 2.9% in 2013. Job vacancies significantly exceed unemployed workers.<sup>1</sup>
- A.9. Wages have continued to pick up. The wages of the median Singaporean worker increased by about 5% in real terms in 2013. Wages also grew for many lower-income workers, with those at the 20<sup>th</sup> percentile of the income ladder seeing real wages go up by around 7%.

## **CPI Inflation and the Property Market**

- A.10. CPI inflation was lower in 2013.<sup>2</sup> However, higher wages, together with other increases in business costs, are expected to contribute to a slight uptrend in CPI inflation in 2014.
- A.11. Besides consumer price inflation, we have been concerned about property prices, which have risen sharply in recent years. The Government's successive rounds of market-cooling measures are working, with both the HDB resale and private residential prices stabilising. In the meantime, HDB BTO prices have been stable, because we had delinked them from the resale market.
- A.12. Our cooling measures have been aimed at moderating the market, so as to prevent property prices from getting too far out of line with incomes. We are not engineering a hard landing. But neither are we able to eliminate cycles in the property market, with upswings in prices in some years followed by corrections. Given the run-up in prices in the last four years, it is too early to start relaxing our measures. The Government will continue to monitor the property market and adjust our measures when necessary.

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<sup>1</sup> With more openings and fewer job seekers, the seasonally adjusted ratio of job vacancies to unemployed persons rose to 1.41 in September 2013, from 1.12 in June 2013. Source: "Labour Market, Third Quarter 2013", MOM.

<sup>2</sup> CPI-All Items inflation was 2.4% in 2013, down from 4.6% in 2012. Excluding imputed rentals on owner-occupied accommodation (OOA), which has no impact on the cash expenditure of most households in Singapore, CPI inflation was 1.9% in 2013, compared to 3.6% in 2012.

A.13. Our businesses have also faced rising rental costs in the last few years, especially in industrial space. Fundamentally, this has reflected the growth in demand for space, which has exceeded new supply. However, a very large quantity of industrial and shop space is entering the market, and should have a moderating influence over the next few years.

## **B. Opportunities for the Future, Assurance for our Seniors**

- B.1. We have embarked on new directions in our economic and social strategies.
- B.2. First, we are going for quality growth: growth based on innovation and deeper capabilities, that will enable us to sustain rising incomes for Singaporeans. It will also allow us to avoid indefinitely expanding the foreign workforce.
- B.3. Second, we are building a fair and equitable society, with stronger support for those who start off with less, where everyone has a real chance to pursue their aspirations and earn their own success. We are strengthening social safety nets, and mitigating inequalities. And as our population ages, we are keeping quality healthcare affordable and strengthening community networks, to help seniors to enjoy active and fulfilling lives.
- B.4. Achieving quality growth and an inclusive society go hand in hand. Together, they will help average Singaporeans as well as those with lower incomes improve their standards of living over time; ensure a caring hand is always there to help those who run into life's inevitable difficulties; and enable everyone to contribute to Singapore in meaningful ways.
- B.5. Budget 2014 will reinforce and build on these new directions.

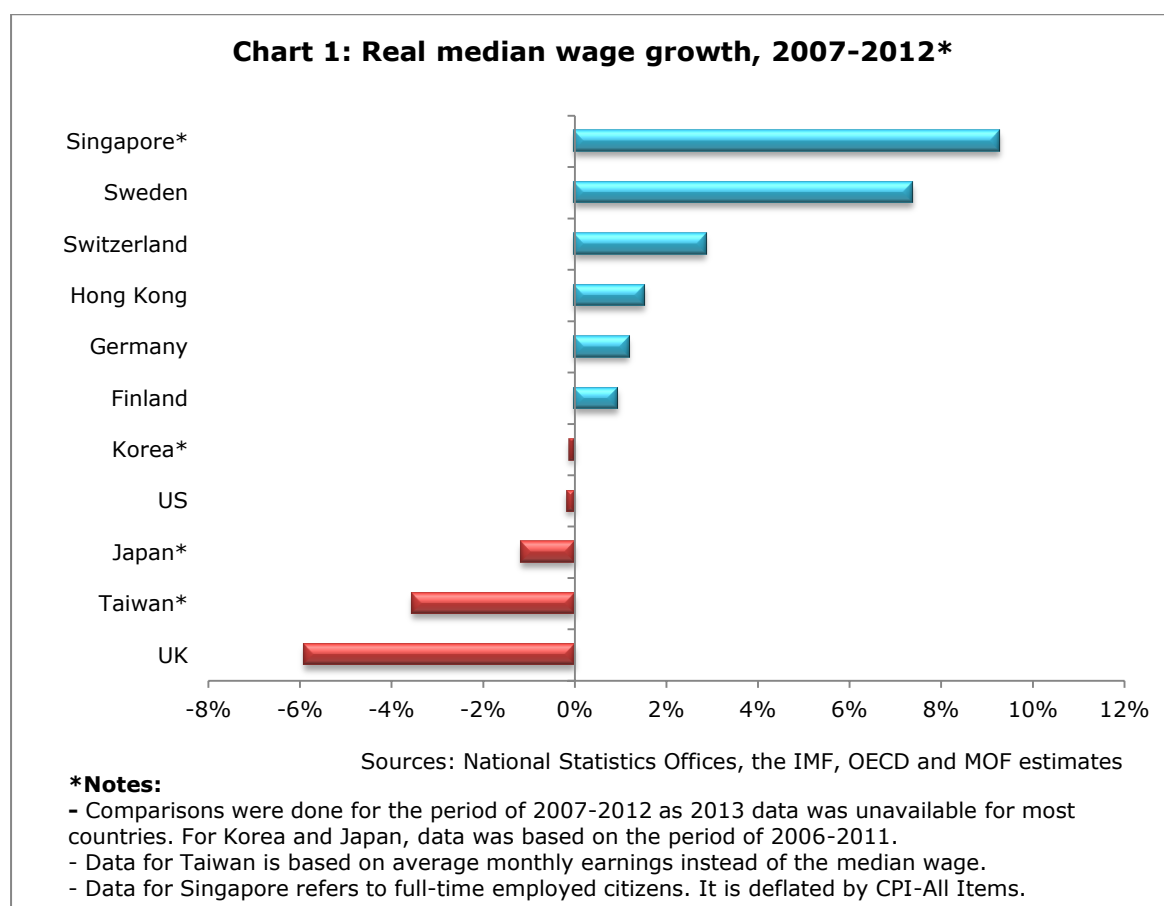
## **Transforming our Economy to Raise Incomes**

- B.6. We are transforming our economy to create higher-value industries and quality jobs for Singaporeans in the next decade and beyond. We are investing in new manufacturing capabilities, to make use of advanced robotics, new sensor technologies and networks of Internet-enabled devices. We are developing an ecosystem to exploit Big Data and open promising new services opportunities. And we are taking advantage of the huge demand in Asia and other parts of the emerging world in fields where our companies are strong, such as in urban solutions and a whole range of services for Asia's growing middle classes.
- B.7. There is no lack of demand for what Singapore can offer. But we are also changing how we grow, in a fundamental way. We must



adapt to the permanent reality of a tight labour market, and transform every sector of the economy to achieve higher productivity and skills. This is the only way we can sustain higher incomes for Singaporeans.

- B.8. Incomes have grown. Among citizens, median wages have increased by about 9% in real terms in the five years to 2013.<sup>3</sup> This is significantly better than in the other Asian Newly Industrialised Economies (NIEs) (Chart 1). Real incomes at the 20<sup>th</sup> percentile of the income ladder rose by a similar amount.<sup>4</sup> We have avoided the problems in many advanced economies, where median wages have stagnated or even fallen over much longer periods, while unemployment has gone up.



<sup>3</sup> Median wages for Singaporeans increased by 12% from 2008 to 2013, when deflated by the CPI excluding imputed rentals on OOA. (This measure of the CPI excludes imputed rentals on owner-occupied accommodation, which has no impact on the cash expenditure of most households in Singapore.) The data on wages refers to that of full-time employed citizens (including employers CPF).

<sup>4</sup> Wages of full-time employed citizens (including employers CPF) at the 20<sup>th</sup> percentile increased by 10% from 2008 to 2013 when deflated by CPI-All Items, and by 14% when deflated by CPI-ex imputed rentals on OOA.

- B.9. The tighter labour market and increase in wages that we are seeing are part of economic restructuring. However we can only sustain wage increases if we succeed in boosting productivity. Let me put this in another way. Without good productivity growth, if we try to push wages up, we will end up with either higher consumer prices or squeezed profit margins that hurt both businesses and ultimately jobs. Firms will either pass on higher wage costs to consumers through higher prices, especially in the domestic service industries, or else they will become less competitive. It becomes a zero-sum game between business profits and wages, that no one benefits from.
- B.10. That is why raising productivity is at the centre of our economic agenda. It is the only way we can raise our living standards in the years to come.
- B.11. To reach advanced country incomes, we must develop advanced country capabilities – the corporate and managerial skills, the ability to translate Research and Development (R&D) into commercial opportunities, and deep skills and expertise in the workforce.
- B.12. It is a major, multi-year undertaking. We cannot transform our economy and achieve major, innovative breakthroughs in every sector in only a few years. Indeed, while productivity has increased by 11% since we began the restructuring journey four years ago, this was entirely due to the strong cyclical recovery in 2010, with little improvement since.
- B.13. However, we are now seeing progress on the ground. Mature, SME-dominated industries like precision engineering and food manufacturing are retooling and experiencing significant productivity growth. More companies are sharing services. Restaurants are using shared services for food preparation and dishwashing, and hotels for laundry services. And in several sectors, individual players are now introducing game-changing innovations – altogether new ways to grow their businesses.
- B.14. Mindsets have also changed. Whereas two years ago the predominant mood amongst businesses was to call for the Government to slow down or postpone tightening of foreign worker inflows, most have now accepted the reality of a tight labour market, and are seeking assistance to upgrade, bring in

new techniques and grow internationally. Many more firms are taking advantage of our schemes to invest in productivity and to expand abroad.

- B.15. We will aggressively support every form of upgrading by firms – whether through R&D, automating business processes, creating new design and brands, or enriching the skills of their employees.
- B.16. Budget 2014 will strengthen support for early adopters of new technologies, and for SMEs who are going beyond the norm in their upgrading efforts. We will also promote wider adoption of high-impact productivity solutions, beyond the early adopters to a larger group of firms in the industry. This will include a major effort to scale up the use of Infocomm Technologies (ICT) by SMEs.
- B.17. The Budget will also enhance funding schemes to help catalyse growth enterprises, and support SMEs in their expansion abroad. In addition, in the construction sector, we will tighten upstream rules on developers to encourage manpower-saving designs, and give contractors stronger incentive to invest in the skills of their workforce.
- B.18. Taking all our productivity support schemes together, we will be flowing back to businesses more support than the additional foreign worker levies collected from the policy tightening in recent years. However, we are not recycling monies indiscriminately, or seeking to benefit all firms equally. Our schemes will still favour the more dynamic and efficient players. Any company that invests in order to save manpower or achieve innovative breakthroughs gets government support, as long as it has its own money in the game.

### **Changing our Social Norms**

- B.19. However, transforming our economy is not just about technology, and productivity is not ultimately about the dollars and cents of upgrading. It also means changing our social norms.
- B.20. We need a workplace culture where employees' views and contributions are valued, up and down the line. When employees are engaged and empowered, productivity goes up. Some of our firms, including SMEs, are good role models in this regard. Many more have to get on board.

- B.21. Second, we also need a culture of mastery of the job. As individuals or companies, and as a society, we have to take pride in developing expertise and flair in every vocation, seeking not just competence but excellence, throughout people's working lives. Employers have to support this too – doing the job well is what counts, not long hours on the job.
- B.22. Third and importantly, we have to change our habits as consumers. Quality service comes in many forms, and need not mean having service staff constantly waiting on us. We must also feel at ease with self-service technologies, such as at check-out counters in supermarkets. We are well behind many other cities in these respects.
- B.23. These other cities were not always that way, but their social norms evolved. We too must make these shifts, in order to avoid a growing dependence on foreign workers, and to create quality jobs.
- B.24. There is no reason, for example, why restaurants and cafes in Singapore cannot be like those in Europe or the US, which operate with fewer service staff, each taking more responsibility and getting better pay; where customers treat staff with respect and the staff wear their uniforms with pride.
- B.25. We must all make the effort to change our social norms, in order to raise productivity and pay. Restructuring our economy will ultimately succeed if, at its heart, it is about these changes in our social practices.

## **Building a Fair and Equitable Society**

- B.26. Budget 2014 also takes forward the major strategies that the Prime Minister spoke about at last year's National Day Rally, aimed at ensuring that ours is a fair and equitable society.
- B.27. We are building on the broader initiatives we have taken in the last five years: in education, work, housing and healthcare. The changes reflect the new phase that we have entered as a country: with incomes rising less quickly, and disparities between different groups becoming a greater concern; and with a growing population of older Singaporeans, often with fewer children to

support them, needing security and assurance in their retirement years.

- B.28. Our thinking has shifted in this new phase, and our initiatives are helping to level up our society and mitigate inequalities. These policy interventions also help to explain why, taking into account government transfers and taxes, Singapore's Gini coefficient was lower in 2013 than it had been in over a decade.

### ***Uplifting Lower-Income Workers***

- B.29. We take seriously the challenges faced by our lower-paid workers, and are helping them through both our economic and social strategies.
- B.30. First and always, we must have a competitive and vibrant economy: that is the only way we can have good jobs and rising incomes for average and lower-income citizens. Jobs are the most important safety net, and the most meaningful way we can keep society inclusive.
- B.31. Second, we are mitigating wage disparities, by using tax revenues to top up the wages of those in the lowest 20% through Workfare. Wages for these workers are in fact going up, as I mentioned earlier. With Workfare, and the Special Employment Credit, the average older lower-wage Singaporean will receive wages at least one quarter higher than what their employers will pay.
- B.32. The three-year Wage Credit Scheme (WCS) that I introduced in last year's Budget is also working well. Wages for lower-paid Singaporeans have in fact improved the most rapidly, helped by the WCS.
- B.33. Our third strategy has been to tackle the problem of cheap-sourcing. It is a specific problem that has required a more interventionist solution, worked out among the tripartite partners. In industries such as cleaning and security, cheap-sourcing has held down pay and also led to high attrition, making it difficult for workers to acquire skills and upgrade themselves. The Progressive Wage Model (PWM), which will be a licensing requirement for companies in both these industries, will ensure that cleaners and security guards too enjoy significant upgrades

in their basic pay, and have a pathway to improve their skills and wages over time.

- B.34. We are making progress, but there is more work to do. We cannot change the realities of global competition and technological advances that put pressure on less-skilled workers all over the world. But we can do much more to improve the lives of lower-income workers, and to give their children the best chances to do well, so that disadvantage is not passed from one generation to the next, and our society preserves a sense of equity and opportunity.

### **Further Measures in Budget 2014**

- B.35. Let me now summarise the major social planks of this year's Budget.
- B.36. We are giving special recognition to our Pioneer Generation through a package that assures them of affordable healthcare. The Budget will also set aside funds today to meet the full cost of the Pioneer Generation Package in future. By doing so, the Government is assuring the Pioneer Generation that the commitment we are making today will be met, regardless of future economic and fiscal circumstances. By taking advantage of current resources to provide fully for this special package for our pioneers, we will also allow future Budgets to focus on the needs and challenges of the future, such as in education, transport and the healthcare needs of all Singaporeans.
- B.37. The Budget will continue with our efforts to support social mobility, and to build a strong and sustainable social safety net.
- a. First, we will boost education subsidies, starting with the early childhood years. The earlier we intervene to help children who start with a disadvantage, the better their prospects for achieving their full potential in life. We will also strengthen support for the middle-income group, especially in tertiary education.
  - b. Second, we will continue to enhance healthcare subsidies for both the lower- and middle-income groups. Besides enhanced government help, we will increase employers' CPF

contributions so as to increase the retirement savings of workers.

- c. Third, we will buttress schemes to help the disabled, from young. Their difficulties are the greatest, and often their courage too. They deserve greater support.

B.38. Taken together, our initiatives of the last five years, plus the further steps in this Budget amount to a major programme to support lower- and middle-income Singaporeans – in fact about 2.5 times compared to ten years ago.<sup>5</sup>

B.39. Let me illustrate what this means for a typical low-income couple, at the 10<sup>th</sup> percentile of the income ladder, through the major episodes of their life.

- a. First, the couple buys a home of their own. They receive \$60,000 in housing grants to buy a BTO 2-room flat, with payments only from their CPF. Later on, if they upgrade to a new 3-room flat, they receive an additional \$15,000 in Step-Up CPF Housing Grant.
- b. Every step of their children's education will be heavily subsidised. Childcare fees will typically be just \$3 a month. Then, through their children's school years and if they go on to polytechnic, for example, financial assistance will cover 75% of their total fees. If they go on to university, they get further support.
- c. Workfare tops up their pay by up to 30%. And if they face set-backs along the way, such as losing a job, ComCare will help.
- d. As the couple gets older, healthcare needs become more important. They will get subsidies of 70% to 80%, whether in in-patient or outpatient treatments, and for long-term care. And if they still have difficulty with their healthcare bills, Medifund will help.

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<sup>5</sup> Based on projections of the lifetime benefits (net of taxes) that a typical household in each income group can expect to receive.

- B.40. Taking these episodes in their life together, the couple will receive significant help from the Government. Government transfers (net of the taxes they pay) will in fact exceed their lifetime incomes.
- B.41. However, what is critical is not just how much we spend and redistribute resources, but how we do so.
- B.42. Our approach to uplifting the poor and levelling-up society can only succeed if it supports a culture of personal responsibility – the desire to learn a new skill and work for a better living, and to make the effort to look after our own families. We know this from the evidence of half a century of major social interventions around the world, such as in the US and the European countries.
- B.43. We cannot leave people to face life's uncertainties on their own. That is not our approach. But as we strengthen our social support and safety nets, our whole approach must encourage a compact between personal and collective responsibility, where each reinforces the other. It is the best way to sustain a vibrant and equitable society, where everyone plays a role in making Singapore a better place.



## C. Transforming our Economy

- C.1. Let me now go on to the first major plank of the Budget: to deepen incentives for restructuring to enable innovation to pervade the economy.
- C.2. Our basic approach has been two-fold. First, we have been tightening foreign worker policies in progressive steps since 2010.
- C.3. As a result, foreign workforce growth has slowed significantly in the past two years. We can expect further slowdowns in the next two years, particularly in the Services sector, as the Dependency Ratio Ceiling (DRC) cuts that were previously announced take full effect by July 2015.
- C.4. The Construction sector has been the exception. While we are not making further moves to tighten foreign worker inflows for the economy at large in this year's Budget, we will make further efforts to encourage the Construction sector to retain skilled workers and to implement manpower-saving technologies. I will speak more on this later.
- C.5. The second prong in our restructuring strategy has been to provide firms with strong support for every investment that can improve productivity.
- a. This year, companies will continue to benefit from the three-year Transition Support Package that we introduced last year. It is a major package of support, now estimated at about \$7.3 billion. It has been very well utilised in the first year of rollout. In particular, strong wage increases over the past year will boost WCS payouts at the end of March 2014 to around \$800 million, significantly more than originally estimated.
  - b. We are also seeing higher take-up rates for the existing Productivity and Innovation Credit (PIC) scheme. Two out of three SMEs with turnover of more than \$1 million have claimed benefits.
  - c. Besides these broad-based measures, we are also providing targeted help to firms investing in innovative ideas

through the Innovation and Capability Voucher (ICV) and Capability Development Grant (CDG) schemes.

## Individual Players are Showing What is Possible

- C.6. As I mentioned earlier, change is happening on the ground. Even within our 'old economy' sectors, individual players are doing things quite differently. They show us that change is possible and how, if we scale up such changes across whole industries, we can achieve a major impact in overall productivity. I will give just three examples of such firms, each of which is operating in industries which have had relatively low productivity.
- C.7. First example is in security: Oneberry Technologies.
- a. Using its proprietary system of intelligent cameras and surveillance software in place of traditional security guards, Oneberry provides security cover with no manpower on site. Instead, staff at its central command centre receive instant alerts when there are intrusions and respond with alarms and warning announcements on-site, or by alerting the police.
  - b. This helps Oneberry's clients to significantly cut down on security manpower. SCAL Kim Chuan dormitory, one of its clients, managed to save \$300,000 in three years as a result.
  - c. This technology-driven business model has also enabled Oneberry to more than double its revenue with only one-third increase in manpower.
- C.8. Second example: Marcella, a menswear retailer.
- a. Marcella has used technology to produce bespoke shirts at off-the-shelf prices.
  - b. It developed software to enable its sales staff to translate customers' measurements automatically into draft designs. As more customer data is collected, the software makes constant improvements in creating fitting designs. This has reduced the need for alterations.

- c. Marcella also uses laser technology to cut fabric to precision in its factories for better accuracy and to reduce wastage.
  - d. With this cost-efficient business model in hand, Marcella is opening its first retail outlet abroad, in New York, in the middle of this year.
- C.9. Third, moving on to the F&B industry, let us now look at Genki Sushi.
  - a. The Singaporean-owned franchise has invested in a system that has reduced the number of staff serving tables by about 85%, and cut waiting times for orders by half.
  - b. Orders are placed using iPads and conveyed directly to the kitchen. 'Trains' shaped like the Shinkansen are then used to serve food straight to its diners' tables.
  - c. In addition, every table has a mechanised plate-clearing system which allows customers to slip empty plates into a slot to be sent directly to the stewarding area.
  - d. The technologies have not only reduced the need for staff but have become a novel dining concept that attracts more customers.
- C.10. These are different examples from different industries, but each shows us what is possible. We must spread this willingness to innovate and make breakthroughs.

## Raising the Game in Restructuring

- C.11. We will therefore provide sharper incentives in this Budget to support significant efforts in business transformation and upgrading. Our support for companies will be along five thrusts:
  - a. First, we will extend and deepen support for businesses to invest in innovation and skills so that they can sustain and step up their restructuring efforts;
  - b. Second, we will give a stronger and more specific push to the piloting and scaling-up of ICT solutions that can help to transform whole sectors;

- c. Third, we will catalyse investments in growth enterprises to facilitate their growth and expansion;
- d. Fourth, we will support companies in their efforts to internationalise and grow their brands in the global market;
- e. Lastly, for the Construction sector, we will put in place a series of measures to help players meet the challenge of raising construction productivity.

## Supporting Innovation and Skills

### Extension and Enhancements to the Productivity and Innovation Credit Scheme

- C.12. The Productivity and Innovation Credit (PIC) scheme is due to expire in Year of Assessment (YA) 2015. There have been many calls for its extension. I have decided to extend the PIC scheme for another three years until YA2018. This extension will cost the Government a total of \$3.6 billion.
- C.13. I will also introduce a “PIC+” scheme for SMEs, to help firms that are making more substantial investments to transform their businesses. Under the current PIC scheme, the expenditure cap is \$400,000 per year for each qualifying activity and the cap can be combined to a total of \$1.2 million across three years. I will raise the expenditure cap to \$600,000 from YA2015. This means that SMEs can now claim tax deductions for up to \$1.8 million<sup>6</sup> in expenditure. (Refer to Annex A-5.)
- C.14. To illustrate, take the example of a medium-sized logistics company planning to invest in an automated storage and retrieval system at a cost of \$1.6 million. Under existing PIC rules, the company can claim enhanced tax deductions on the cost capped at \$1.2 million. With the new PIC+, it can now enjoy deductions on the full \$1.6 million expenditure and expect total tax savings of about \$530,000.<sup>7</sup>

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<sup>6</sup> \$1.8 million is the combined expenditure cap per qualifying activity for YA2016 to YA2018.

<sup>7</sup> Tax deduction of \$1.6 million x 400% x effective tax rate of 8.3% (for company with turnover of \$10 million to \$50 million) = \$531,200.

### **Extension of Tax Incentives for Innovation**

- C.15. To continue encouraging private R&D, we will extend the 50% additional tax deduction on qualifying R&D expenditure for another 10 years till YA2025, and the further tax deduction administered by the EDB for another five years till 31 March 2020. (Refer to Annex A-5.)
- C.16. We will also extend the writing down allowance for cost incurred to acquire qualifying Intellectual Property Rights for another five years till YA2020. (Refer to Annex A-5.)

### **Industry Transformation through New Industrial Spaces**

- C.17. We will create new industrial spaces that cluster companies within the same industry. SMEs will benefit from lower costs through the consolidation of operations, pooling of resources and aggregation of demand for delivery and other services.
- a. For instance, JTC's Food Hub concept will feature an integrated cold room-warehouse shared facility operated by a third party provider who will also provide logistics services. This will not only lower the capital investments needed by SMEs – as they no longer need to invest in their own cold rooms – but also enable them to benefit from more efficient supply chains.

### **Extension of the Land Intensification Allowance**

- C.18. In addition to these cluster strategies, we will continue to encourage individual businesses to maximise land use. We will renew the Land Intensification Allowance (LIA), due to expire next year, for five years to 30 June 2020. We will also extend the LIA to the logistics sector as well as to businesses carrying out qualifying activities on airport and port land. (Refer to Annex A-5.)

### **Promoting Continuing Education and Training**

- C.19. We are undertaking a major review of our Continuing Education and Training (CET) system to support the up-skilling of our workers on a continuous basis and the transformation of our economy. The review will be completed later this year. As more funds will be needed for the expansion of our CET system, I will

top up the Lifelong Learning Endowment Fund (LLEF) by \$500 million, bringing the total fund size to \$4.6 billion.

## **Adopting ICT Solutions to Increase Productivity**

- C.20. Our second major thrust is to catalyse the adoption of ICT especially in our SME sector.
- C.21. ICT is transforming almost every industry internationally. While the Public Sector and our larger corporations have been actively leveraging ICT, we have to help our SMEs step up adoption of ICT solutions.
- C.22. We will give this a major push over the next three years. We will launch an ICT for Productivity and Growth (IPG) programme, comprising three key initiatives which I will elaborate on in turn.

## **Scaling-up Proven ICT Solutions**

- C.23. The first concerns proven ICT solutions. Over the past three years, IDA has worked with trade associations and the ICT industry to develop and deploy sector-specific solutions under the iSPRINT scheme. In F&B, for example, more than 50 F&B operators have adopted a wireless integrated restaurant system that has relieved their service staff from manual and repeated tasks.
- C.24. We target to extend the reach of these sector-specific proven solutions from the existing 500 SMEs to another 10,000 SMEs over the next three years. We will subsidise 70% of the costs of ICT products and services. (Refer to Annex A-2.)

## **Piloting of Emerging Solutions**

- C.25. Second, we will encourage first movers, who can pilot emerging technology solutions that have the potential to transform businesses. These can, for example, include innovations in sensors, data analytics and robotics.
- C.26. Over the next three years, we will support 80% of the qualifying costs for firms that are implementing innovative solutions that are new to Singapore. The support will be capped at \$1 million per participating firm. (Refer to Annex A-2.)

## **Enabling High-Speed Connectivity for Businesses**

- C.27. Third, we will promote high-speed connectivity for SMEs. It is difficult for SMEs to take full advantage of cloud computing and data analytics solutions without high-speed Internet access.
- C.28. We will subsidise SMEs' fibre broadband subscription plans of at least 100 Mbps (Megabits per second) and provide support for them to implement Wireless@SG services at their premises. (Refer to Annex A-2.)
- C.29. We will also ensure that more buildings have facilities to bring fibre broadband to their business tenants. We will subsidise building owners for up to 80% of the costs of new in-building infrastructure, capped at \$200,000 per building. (Refer to Annex A-2.)
- a. As this is not a permanent measure, building owners are strongly encouraged to take this up within the next three years.
  - b. IDA will consult the industry and building owners to determine the most optimal way to structure the subsidy.
- C.30. These initiatives will cost \$500 million over the next three years.

## **Catalysing Investment in Growth Enterprises**

- C.31. The third thrust in our efforts to promote industry transformation will catalyse financing for companies at various stages of growth so that they can take full advantage of growth opportunities.

## **Co-Investment Programme Phase II**

- C.32. SMEs in the growth and expansion stage often need a boost in financing to achieve sufficient scale and become globally competitive. In 2010, the Co-Investment Programme (CIP) was launched to catalyse patient growth capital for Singapore-based enterprises, through co-investing with the private sector.
- C.33. The Government set aside \$250 million for the first phase of the programme, of which approximately \$160 million has been deployed. This has already catalysed over \$500 million of



investments from private sector players, or over three times of the Government's outlay.

C.34. In view of the good take-up to date, we will launch the second phase this year with the Government providing an additional \$150 million to match private sector investments. The CIP will continue to focus on investing in growth-oriented Singapore SMEs and providing the patient capital to help SMEs that need more time to execute their expansion and internationalisation plans. (Refer to Annex A-3.)

C.35. The additional capital will be allocated to two funds:

- a. SME Co-Investment Fund II. Similar to the existing SME Co-Investment Fund, this second fund will make direct equity investments into companies alongside other private equity investors.
- b. SME Mezzanine Growth Fund. This is a new fund that aims to meet the demand from SMEs for mezzanine financing, a hybrid debt-equity instrument. It provides a more flexible financing option for SMEs that do not wish to dilute their equity but face challenges in increasing their borrowings from traditional banking sources.

### **Enhancement of the Micro-Loan Programme**

C.36. In addition, young SMEs often face financing challenges that hinder their potential growth. They lack a track record and are inherently more risky investments, making it difficult for them to obtain loans from banks. We thus launched the Micro-Loan Programme (MLP) in 2001, with the Government taking on some of the risk for small loans below \$100,000, to encourage banks to lend to our small and young businesses.

C.37. The Government will take on more of the risk, to spur lending to young SMEs. SPRING Singapore will raise the government risk-share in the MLP for young SMEs (firms which have been registered for less than three years) from 50% to 70%. The enhancement is expected to catalyse an additional \$32 million in loans for FY2014 and FY2015. (Refer to Annex A-3.)



## **Crowdfunding for Start-ups**

- C.38. We are also studying the potential for equity crowdfunding, which is emerging in some countries as an alternative source of financing for start-ups and small companies. MAS and SPRING are looking into an appropriate regulatory framework for such new business models.

## **Seizing Growth Opportunities Overseas**

- C.39. Our fourth thrust concerns internationalisation. Take-up of IE Singapore's schemes to help companies internationalise has grown over the past year. We will make targeted enhancements to further assist companies in seizing opportunities overseas.

## **Financing for Internationalisation**

- C.40. First, we will raise the maximum loan quantum supported by the Internationalisation Finance Scheme (IFS) from the current \$15 million to \$30 million. This will boost debt financing for companies to make additional asset investments abroad or fund working capital expenses for secured overseas projects. With this enhancement, the IFS is expected to catalyse up to \$500 million in loans over the next two years for companies pursuing internationalisation. (Refer to Annex A-4.)

## **Building Capabilities for Internationalisation**

- C.41. Second, we will enhance the Global Company Partnership (GCP) Programme by providing additional support in two areas:
- a. We will raise the support level for pilot and test-bedding projects from the existing 50% to 70%. This is to assist our companies to establish track records and prototype new products to break into overseas markets.
  - b. We will also expand support for staff attachments in overseas markets.
- C.42. This should benefit some 200 companies over the next two years. MTI will announce more details at the COS.

## The Construction Sector

- C.43. Our fifth and last thrust has to do with the more intensive efforts needed to upgrade the Construction sector.
- C.44. Transforming the industry requires change across the whole construction eco-system: from ensuring that developers and architects create designs that allow for more efficient downstream construction operations; to ensuring adequate supply of pre-fabricated components; and to allocating land near the site for storage needs during the construction stage.

### Upstream Measures to Tackle Construction Productivity

- C.45. We will take a few initiatives in this budget to encourage change across this ecosystem.
- C.46. First, for selected Government Land Sales (GLS) sites, we will mandate the use of productive technologies such as Prefab Prefinished Volumetric Construction and Prefab Bathroom units in the tender conditions. JTC will also stipulate a minimum percentage level of prefabrication as part of tender conditions for Industrial Government Land Sales (iGLS) sites.
- C.47. In addition, we will incentivise developers to adopt productive technologies in developments on non-GLS sites.
- C.48. We will continue to increase the legislated buildability-scores (B-score) and constructability-scores (C-score) for projects.
- a. From September this year, private projects that are outside of the GLS programme will need to meet the same higher standards as public sector projects and private sector projects on GLS/iGLS sites. This is expected to reap 9% to 14% in manpower savings on such projects.
  - b. We will also require standardised floor heights and building components such as drywalls for new projects.
- C.49. The public sector will also take the lead by using productive technologies more aggressively to provide a demonstrative effect, and catalyse mass demand. Development agencies such as LTA, JTC and HDB will continue to adopt more advanced technologies

such as shield tunnelling, and optimise the use of precast and prefabricated components in their upcoming projects.

- C.50. For government construction projects, tender evaluation will favour firms with good track records in adopting productive construction designs and methods.
- C.51. More details on these upstream measures will be provided by MND at the COS.

### **Targeted Foreign Worker Policies for Construction**

- C.52. We will also introduce further calibrated measures to discourage construction firms from over-reliance on lower skilled foreign workers. First, we will increase the foreign worker levies for construction Basic Skilled Work Permit Holders.
- a. The levy for Basic Skilled or R2 Work Permit Holders employed within Man-Year Entitlement (MYE) will be increased from \$600 to \$700 in July 2016. We are announcing this change in the Construction sector two years in advance because of the significant pre-planning needed in such projects.
  - b. Levies for Higher Skilled or R1 Work Permit Holders will remain unchanged to further encourage construction firms to opt for more skilled foreign workers.
- C.53. In the longer term, we will be looking into mandating a minimum proportion of R1 Work Permit Holders at the firm level to improve the skill profile of the foreign workforce.
- C.54. We will help construction firms retain workers with better skills and experience. We will introduce a new Market-Based Skills Recognition Framework to complement the existing upgrading pathway which requires Work Permit Holders to pass a skills certification test to achieve Higher Skilled status.
- C.55. Under this new framework, Basic Skilled workers who have worked in Singapore for at least six years and who earn a salary of at least \$1,600 will be allowed to upgrade to Higher Skilled or R1 status.

- C.56. Many firms have provided feedback through the Singapore Business Federation's SME Committee about the need to retain experienced workers who have acquired deep skills and valuable knowledge on the job.
- C.57. We will extend the maximum Period of Employment for R1 Work Permit Holders from non-traditional sources (NTS) and the PRC from 18 to 22 years.
- C.58. This extension of Period of Employment will also apply to the Marine and Process sectors.
- C.59. More details will be released by MOM.

### **Monitor Foreign Workforce Growth in Other Sectors**

- C.60. We will continue to closely monitor the growth of foreign manpower in other sectors, to ascertain whether further tightening measures, including levy increases, are needed for 2016 and beyond.

## **D. A Fair and Equitable Society**

- D.1. The second major plank of the Budget has to do with our work to achieve a fair and equitable society.
- D.2. We are driving important initiatives to help our lower-income families aspire for themselves, and enable every Singaporean to contribute to a better society. It is a determined, multi-year effort to keep up social mobility and do all we can to avoid becoming a society of permanent tiers. Equally, we are enabling a better system of care and financial security for the elderly and Singaporeans with disabilities.
- D.3. A key feature in this year's Budget is the Pioneer Generation Package. As the Prime Minister has stated, we are honouring this unique generation of Singaporeans who built up the country, although no package can fully reflect the contributions that our pioneers have made.
- D.4. Budget 2014 will also enhance retirement adequacy and healthcare affordability for all Singaporeans, besides the Pioneer Generation, and strengthen support for persons with disabilities. In addition, we will take further steps to support children from lower- and middle-income homes.
- D.5. As we enhance our social spending, however, I want to highlight two important challenges that we face.
- D.6. The first concerns healthcare costs. Healthcare will be the main driver of the higher social spending that we will see over the next 10 to 15 years. It will happen as Singaporeans get older, but also as new medical treatments become available, enabling longer and better lives. The demand for medical treatment will inevitably grow.
- D.7. We will have to find the right ways to fund these future healthcare needs. It means finding the right balance of funding: between tax-funded subsidies, collective risk-pooling through MediShield Life and ElderShield, individual co-payments and safety nets like Medifund for the needy. We must find a balance that is equitable to the poor, and that also ensures that we can fund quality healthcare on a sustainable basis, in the next decade and well beyond.

- D.8. But equally important, we must ensure that healthcare cost inflation is controlled in the years to come. We cannot end up in a cycle of ever-increasing healthcare spending and funding needs – whether from the Government or citizen’s own pockets.
- D.9. We therefore have to reshape our healthcare system to control costs, even as we ensure good healthcare outcomes. While we have to expand the capacity of our system in every area, from hospitals to home-based care, we must over time also reduce the over-concentration of patient load in our acute hospitals. Primary care providers like our family physicians and polyclinics have to play bigger roles. We are also developing the long-term care sector, to enable patients to receive continuing care outside hospitals, and close to home.
- D.10. Besides rebalancing the system, we must also ensure that hospitals, doctors, insurers and patients have the right incentives, so that Singaporeans receive treatments that are both clinically sound and cost-effective. There are many lessons to be learnt from the experience of countries where healthcare costs have ballooned because incentives favour the most expensive treatments, even where benefits are doubtful or unproven.
- D.11. The second key challenge is that of developing quality people for the social sector. We will not succeed without good people: with professional skills, empathy and the knack for helping those in need to find their own feet.
- D.12. We need nurses, doctors and allied healthcare professionals; early childhood professionals and learning support specialists; social workers and counsellors; and imaginative leaders, who can build strong and effective networks across social services to tackle increasing complex social challenges.
- D.13. In the coming years, we will be investing more in our people in the social sector. We will ensure they have opportunities to deepen their expertise, empower them to find creative solutions to problems, and give them the reward and recognition they deserve.

## Promote Social Mobility

- D.14. We will do more in this Budget to strengthen opportunities for lower- and middle-income students in our education system, both at pre-schools and at our Institutes of Higher Learning (IHLs).

### Pre-school Education

- D.15. Our existing financial assistance scheme for kindergartens is aimed at lower-income households. We will enhance this in two ways through the Kindergarten Fee Assistance Scheme (KiFAS). First, we will provide more fee assistance, and extend this to the middle-income group.
- D.16. With this change, more households in the lowest quartile (up to \$3,000 a month) will now pay just \$3 a month, down from as much as \$75 previously. A lower-middle income household that earns \$4,800 a month will now pay \$85 a month, compared to about \$130 today.
- D.17. The second change is that KiFAS will be made available to all Anchor Operators and MOE Kindergartens.
- D.18. The Minister for Social and Family Development will provide more details at the COS.

### Bursaries at our Institutes of Higher Learning (IHLs)

- D.19. We will significantly enhance bursaries at our IHLs.
- D.20. First, we will enable more students to qualify for bursaries by raising the per capita monthly household income threshold from \$1,700 to \$1,900. The bursaries will hence benefit students from two-thirds of all Singaporean households.
- D.21. For university undergraduates, those from the lowest one-third of households will see bursaries increase to \$3,600 a year. Middle-income students will see a \$450 increase to \$2,600 a year. This is besides the Tuition Fee Loan and Study Loan schemes that enable students to pay for their university education interest-free while they are studying.

- D.22. Similarly, polytechnic and ITE students from middle-income households will receive increased support, besides the substantial support that we will continue to provide for those from lower-income families. ITE bursaries for lower-income students will be significantly higher than their fees, helping them defray their living expenses.
- D.23. These changes will together cost up to \$147 million more each year. The Minister for Education will provide more details at the COS.

## **Enhance Healthcare Affordability**

- D.24. We are taking significant steps to enhance healthcare affordability for Singaporeans by introducing subsidies for MediShield Life, and expanding subsidies at Specialist Outpatient Clinics (SOCs). We will also raise CPF contributions to better provide for the future medical needs of Singaporeans.

### **MediShield Life Review**

- D.25. The MediShield Life Review Committee has been reviewing the various parameters of MediShield, taking into consideration the feedback received. It is reviewing benefits such as claim limits and co-insurance rates so that MediShield Life provides better protection against large hospital bills and reduces patients' share of the bill.
- D.26. Naturally, these significant enhancements will require higher premiums. However, the Government will ensure that premiums remain affordable for the lower- and middle-income groups. We will do so in two ways:
- a. First, we will provide them with significant permanent subsidies, so that they can fully pay their remaining premiums out of their regular Medisave contributions. We will also provide further assistance for those in financial difficulties.
  - b. Second, to ease the transition into MediShield Life we will provide a subsidy to offset premium increases for the first few years, including for those who are higher-income.



D.27. We will finalise the details of the subsidies after the Committee has completed its work.

### **Specialist Outpatient Clinics Subsidies**

D.28. We will also do more to keep outpatient care affordable for the lower- and middle-income group.

D.29. Today, all subsidised patients enjoy 50% subsidy on average for general Specialist Outpatient Clinics (SOC) services, including consultation and diagnostic tests. We will raise subsidies for lower- and middle-income Singaporeans to 70% and 60% subsidy respectively. This will be especially helpful for patients who require regular treatment at the SOC because of their conditions. The subsidies for SOC services will be implemented from September 2014.

Table 1: Enhancements to subsidy for SOC services

<b>Household income per capita</b>	<b>Annual value of home (for those without income)</b>	<b>Current</b>	<b>Revised</b>
Up to \$1,100	Up to \$13,000	50%	70%
\$1,101 to \$1,800	\$13,001 to \$21,000		60%
More than \$1,800	More than \$21,000		50%

D.30. Apart from SOC services, patients also have to spend on medication. We will similarly enhance subsidies for medication. However, as this has to be implemented across different healthcare settings, the enhancements will be introduced early next year. MOH will provide the details later.

D.31. To illustrate how these subsidies work, consider someone in his 50s who is lower-income and suffers from chronic illnesses such as high cholesterol and hypertension. These changes would mean reducing his annual SOC charges by almost half from \$480 to

\$265, once the subsidies for services and medication are implemented.

- D.32. An estimated 400,000 patients will benefit from the enhancements. It will cost an additional \$123 million per year.

### **CPF Medisave Contribution Rate**

- D.33. Everyone has to play a role in meeting future healthcare costs. The Government is significantly increasing its support for lower- and middle-income individuals, and providing a special package for the Pioneer Generation. For individuals, as I mentioned earlier, MediShield Life premiums will go up so as to pay for the enhanced benefits they will receive. It is important for employers to play a role too in this national effort to provide for the future healthcare needs of Singaporeans. Indeed, it is in employers' interest to have a healthy and motivated workforce.
- D.34. We will therefore raise the CPF employer contribution rate by 1 percentage point for all workers. This increase will be channelled to the Medisave Account.
- D.35. To help employers manage this increase, the Government will provide them with a 50% offset, through a one-year Temporary Employment Credit (TEC). Employers will receive an offset of 0.5 percentage points of wages, up to the CPF salary ceiling of \$5,000. Both the CPF contribution rate change and the TEC will take effect from January 2015 to give employers sufficient time to factor the changes into their business plans. The TEC will cost \$330 million. (Refer to Annex B-2.)
- D.36. Our younger workers will benefit significantly from this increase, but so too will middle-aged workers. For example, a 40-year-old earning a wage of \$4,000<sup>8</sup> will increase his Medisave savings by \$20,800 by the time he retires at age 65.
- D.37. As a result of this adjustment, the overall CPF contribution rate will be 37%, with employers contributing 17 percentage points and employees 20 percentage points. At 37%, the overall rate is higher than the range of 30% to 36% that was targeted in 2003.

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<sup>8</sup> Median wage for workers aged 40 – 44.

- D.38. We deliberated on this increased contribution rate carefully, taking into account future needs. Compared to a decade ago, life expectancy has increased, and will very likely move up further in Singapore. The demand for healthcare services has also increased, as advancements in medical care become available.
- D.39. We do not expect to make further changes soon to total CPF contribution rates, beyond this 1 percentage point increase. In the longer term, any further changes will have to be carefully considered by the tripartite partners, taking into account economic conditions, business costs and competitiveness.
- D.40. With higher Medisave contributions, we will allow elderly Singaporeans to use a portion of their Medisave more flexibly across a range of outpatient treatments. This is on top of the existing Medisave withdrawal limits for specific chronic conditions and other treatments. The Minister for Health will elaborate at the COS.

## **Honouring our Pioneer Generation**

- D.41. Taken together, the review of MediShield Life – including the subsidies we will provide for Singaporeans – as well as our enhanced SOC subsidies, are significant improvements in healthcare accessibility and affordability. These are changes that we will sustain for the long term for all Singaporeans.
- D.42. Let me move on now to the Pioneer Generation Package which provides a special package of support on top of these enhancements.

### **Criteria for the Pioneer Generation**

- D.43. As the Prime Minister has announced, the Pioneer Generation Package will be for the first generation of Singaporeans who were living and working in Singapore after we became independent.
- D.44. The Pioneer Generation Package will thus be for those who were at least 16 years old in 1965. Within these age cohorts, we have – for practical reasons – included those who became citizens before 1987. This is because our manual records before that are incomplete with regard to the dates they became citizens. However, we know that more than 90% of those who became citizens by 1987 were already living in Singapore before 1970.

- D.45. In total, about 450,000 Singaporeans fulfil the criteria. There may be people who marginally miss out on the precise criteria, but have good claims to be counted among the Pioneer Generation. We will hence establish a panel to assess appeals on a case-by-case basis.

### **Pioneer Generation Package Benefits**

- D.46. There will be three key components to the Pioneer Generation Package – Outpatient care, Medisave Top-ups and MediShield Life subsidies.
- D.47. These special benefits that we are providing the Pioneer Generation will not be differentiated by income because our objective is to honour the contributions of this whole generation. However, members of the Pioneer Generation who are less well-off will benefit more where there are higher underlying subsidies for all lower-income Singaporeans – such as at the SOC, as I have just announced.

#### ***(I) Outpatient Care***

- D.48. Many of the Pioneer Generation require outpatient treatment, either for common illnesses or for chronic conditions, such as diabetes and high blood pressure. We will provide them with additional subsidies in three areas:
- D.49. First, SOC and polyclinics. As I have just explained, we are increasing SOC subsidies for the lower- and middle-income. We will give the Pioneer Generation a further 50% off their subsidised bills at SOC. What this amounts to is that all Pioneer Generation members will get a 75% to 85% subsidy for treatment at SOC. Similarly, the Pioneer Generation will receive an additional 50% off their subsidised bills at polyclinics.
- D.50. Second, Community Health Assist Scheme (CHAS) benefits, which are important because private GPs play an integral role in our primary care system. CHAS is currently targeted at lower- and middle-income Singaporeans. Under this package, all Pioneer Generation members will get more:
- a. Those who are not on CHAS will now qualify;

- b. Those already on CHAS will enjoy additional subsidies, which will be similar to our enhancements for the Pioneer Generation at SOCs and polyclinics.

- D.51. Third, Pioneer Generation Disability Assistance. Those who have moderate to severe functional disabilities often face much higher long-term care expenses because they require assistance to feed themselves, bathe or move around. Under the Pioneer Generation Package, they or their nominated caregivers will receive cash assistance of \$1,200 a year.
- D.52. The subsidies for SOC and polyclinic services, as well as disability assistance, will be implemented in September 2014. The additional CHAS benefits will be implemented in January 2015. The Minister for Health will provide more details at the COS.

## ***(II) Medisave Top-ups***

- D.53. The second component of the Pioneer Generation Package comprises annual Medisave top-ups of \$200 to \$800 for the Pioneer Generation. These are on top of the regular GST Voucher – Medisave payouts for older Singaporeans. Older Pioneer Generation cohorts will enjoy larger top-ups. The Medisave top-ups will be paid out from August this year. The Pioneer Generation can also look forward to the more flexible Medisave for all older Singaporeans, that I spoke about earlier. (Refer to Annex B-1.)

Table 2: Medisave Top-Ups for Pioneer Generation

<b>Age in 2014 (Birth Cohort)</b>	<b>Annual Medisave Top-Up</b>
65-69 (1945-1949)	\$200
70-74 (1940-1944)	\$400
75-79 (1935-1939)	\$600
80+ (1934 and earlier)	\$800

### ***(III) MediShield Life Subsidy***

- D.54. Many of the Pioneer Generation, especially the older ones, are currently not covered by MediShield.
- D.55. MediShield Life will cover all Pioneer Generation members, including those with pre-existing conditions. They will receive enhanced coverage for large hospital bills. We will also provide the Pioneer Generation a special subsidy to ensure that MediShield Life premiums are highly affordable for them.
- D.56. The special subsidy will increase with age. All Pioneer Generation members will enjoy subsidies starting from 40% of the MediShield Life premium at age 65, rising to 60% of the premium at age 90. This means that a 65-year-old today – who is expected to live to 85 – will get a 50% average subsidy over his lifetime.
- D.57. The MediShield Life Review Committee is currently reviewing the benefits and premiums, which will be ready later this year. However, the Government's intent is clear:
- a. For Pioneer Generation members aged 80 and above in 2014, we intend to fully cover their premiums through a combination of premium subsidies and Medisave top-ups.
    - i. This will be the case even for those who are currently not covered under MediShield, and who will now enjoy the benefits of MediShield Life.
  - b. For those who are younger, for example, aged 70 in 2014,
    - i. If they are on MediShield today, with the new premium subsidies and Medisave top-ups, we aim for them to pay only about half of their current premiums.
    - ii. If they are not on MediShield today, they will be brought onto MediShield Life. They should still pay less than current premiums.
- D.58. The MediShield Life subsidies will be implemented in end-2015, when MediShield Life is rolled out.

## **Summary of Pioneer Generation Benefits**

- D.59. Let me summarise. All members of the Pioneer Generation will receive the special benefits of the Package regardless of income. They will also get it for the rest of their lives.
- D.60. First, for outpatient treatment. They will get a further 50% discount on their subsidised bills in SOCs and Polyclinics. They will also receive CHAS benefits. These will be on top of the underlying subsidies. And for those with moderate to severe disabilities, they will get cash assistance of \$1,200 per year under the Pioneer Generation Disability Assistance Scheme
- D.61. Second, Medisave top-ups. The Pioneer Generation will receive \$200 to \$800 every year, with the older cohorts receiving more. This is on top of the annual Medisave top-ups in the GST Voucher. They will also be able to use their Medisave more flexibly for a range of outpatient treatments.
- D.62. Third, MediShield Life will be affordable. For those 80 and above in 2014, we intend to fully cover their MediShield Life premiums through a combination of MediShield Life subsidies and Medisave top-ups. For those who are younger, around 70 in 2014, we aim for them to pay only about half of their current premiums, with the rest covered through premium subsidies and Medisave top-ups, if they are on MediShield today.
- D.63. I will explain how I will fund the Pioneer Generation Package later.

## **Further Help for Older Singaporeans**

- D.64. We want to provide more support for other older Singaporeans. As I mentioned earlier, they will benefit from subsidies for MediShield Life and the enhanced subsidies for SOCs. We will introduce further measures to help them.

### **5-Year CPF Medisave Top-Up**

- D.65. To help those not eligible for the Pioneer Generation Package with their healthcare expenses, I will provide a Medisave top-up of \$100 to \$200 annually over the next five years to Singaporeans aged 55 years and above in 2014. The vast majority, those living in HDB flats, will get \$200 a year. (See Table 3.) This special top-up is on top of the annual GST Voucher – Medisave that those 65 and above can receive.

Table 3: 5-Year CPF Medisave Top-Up

<b>Annual Value of Home as at 31 Dec 2013</b>	<b>Up to \$13,000</b>	<b>Above \$13,000 or owns more than 1 property</b>
Citizens born in 1959 and earlier who do not enjoy Pioneer Generation benefits	\$200/year	\$100/year

- D.66. This is expected to cost around \$440 million over 5 years.

### **CPF Contribution Rates for Older Workers**

- D.67. In recent years, we have boosted our support for older workers to help them remain meaningfully employed. Schemes such as the Special Employment Credit (SEC) and Workfare Training Support (WTS) encourage employers to hire and invest in training them.
- D.68. Our efforts at improving the employability of older workers are showing results. The employment rate of older residents aged 50 to 64 has risen steadily from 56% in 2003 to 70% in 2013.
- D.69. We had made a commitment in 2012 to give older workers aged 50 to 55 the same contribution rates as their younger counterparts. We made the first step in that year with a 2.5 percentage point increase. Smaller increases were introduced for workers aged 55 to 65.



- D.70. NTUC has called for contribution rates for older workers to be increased this year. The Singapore National Employers' Federation (SNEF) also supports some adjustments in contribution rates, but has cautioned that rates be increased gradually to preserve the incentive for employers to hire older workers.
- D.71. Following consultations amongst tripartite partners, we will take a second step towards raising the contribution rates for them. This will be on top of the 1 percentage point increase in the Medisave contribution rate, which I announced earlier.
- D.72. We will raise CPF contribution rates for those aged 50 to 55 by 1.5 percentage points – 1 percentage point from the employer and 0.5 percentage points from the employee. We will also raise the employer contribution rate for those aged 55 to 65 by 0.5 percentage points.
- D.73. All increases in employer contributions will be allocated to the Special Account. As some older households may still be servicing mortgages, the 0.5 percentage points from employees will go to the Ordinary Account. (See Table 4.)

Table 4: Increase in CPF Contribution Rates for Older Workers

Employee Age (Years)	New Contribution Rates* from Jan 2015 (% of wage) (rate increases are in brackets)		
	Employer	Employee	Total
Above 50 – 55	16 (+2)	19 (+0.5)	35 (+2.5)
Above 55 – 60	12 (+1.5)	13	25 (+1.5)
Above 60 – 65	8.5 (+1.5)	7.5	16 (+1.5)
Above 65	7.5 (+1)	5	12.5 (+1)

*\*Includes the 1 percentage point increase in employer's contribution to CPF Medisave for all Singaporeans.*

- D.74. As a result of these changes, a 50-year-old worker earning a wage of \$3,000<sup>9</sup> will have \$6,500 more in his retirement savings at age 65.
- D.75. To help employers adjust, we will provide a one-year increase in the SEC of up to 0.5 percentage points. This comes on top of the existing SEC of up to 8% of wages, and will offset the increase in older worker contribution rates. This temporary increase in SEC will cost an additional \$30 million.
- D.76. Like the Medisave contribution increase announced earlier, the higher contribution rates for older workers, as well as the SEC offset, will begin from January 2015 onwards.

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<sup>9</sup> Median income for those aged 50 to 54.

## **Enhancement of Parent Relief**

- D.77. I will also enhance income tax reliefs to give greater encouragement and recognition to individuals supporting their parents and grandparents.
- D.78. I will increase parent relief and handicapped parent relief by up to \$3,000, with those individuals who are staying with their elderly dependants enjoying a higher relief quantum. (See Table 5.)

Table 5: Parent Relief and Handicapped Parent Relief

Type of Relief	Current Relief Quantum	Relief Quantum With Effect From YA2015
Parent Relief (Staying with dependant)	\$7,000	\$9,000
Parent Relief (Not staying with dependant)	\$4,500	\$5,500
Handicapped Parent Relief (Staying with dependant)	\$11,000	\$14,000
Handicapped Parent Relief (Not staying with dependant)	\$8,000	\$10,000

- D.79. This measure will benefit about 170,000 individuals, supporting 208,000 dependants. It will cost about \$27 million a year.
- D.80. Currently, the relief for a parent can only be claimed by one child. Following a public consultation last year, I will allow the sharing of parent relief in recognition that care for parents is a shared responsibility among family members. (Refer to Annex A-5.)

## **Greater Support for Persons with Disabilities**

- D.81. Our next set of initiatives for Budget 2014 concerns support for persons with disabilities. We have over the last decade significantly expanded support for them, to help at each stage of their lives.

### **Strengthening Early Intervention**

- D.82. We will enhance subsidies for the Early Intervention Programme for Infants and Children (EIPIC). For children with special needs, access to early intervention in the form of therapy and educational support services helps greatly in developing their potential and their ability to be independent. However, it is resource-intensive and therefore costs more, which places a higher strain on the finances of families with such children.
- D.83. We will enhance subsidies so that more middle-income households can benefit. Those earning above median household income (up to the 80<sup>th</sup> percentile) will now benefit from a further 20% to 50% subsidy, on top of an enhanced \$500 base subsidy that benefits all Singaporean children enrolled in EIPIC.
- D.84. For example, after the enhancements, a middle-income household with per capita income of \$1,875 would pay less than \$300 per month – compared to \$600 previously, depending on the service their child requires.
- D.85. Lower-income households will also see a decrease in monthly expenses. They will now pay a nominal monthly fee as low as \$3, down from \$50 a month today.

### **Transport for Persons with Disabilities**

- D.86. Our next set of initiatives is to reduce the cost of transport for the disabled community.
- D.87. In January 2014, we announced a new government-funded fare concession scheme so that persons with disabilities who travel by bus and train enjoy 25% discount on adult fares. Beyond public transport, we will move decisively on two other fronts.
- D.88. We will introduce subsidies of up to 80% for those who require dedicated transport services to access special education and care services. This will apply to the lower two-thirds of households.
- D.89. There are also those who rely on taxis as they are unable to travel by public transport or tap on dedicated transport. We will subsidise those in the lower half of households through a new Taxi Subsidy Scheme, covering up to 50% of the cost.

D.90. The Minister for Social and Family Development will elaborate on these initiatives at the COS.

### **Enhanced Handicapped Dependant Reliefs**

D.91. Finally, apart from the increase in reliefs for handicapped parents which I announced earlier, I will also boost support for individuals with handicapped dependants. Reliefs for those caring for a handicapped spouse, sibling or child will be increased. Starting from YA2015, each relief will be increased by \$2,000 to provide greater recognition and support to these individuals. This measure will benefit about 11,500 taxpayers.

D.92. Collectively, these initiatives to support persons with disabilities will cost the Government an additional \$30 million a year.

### **Additional Support for Singaporean Households**

D.93. Finally, I will provide in this Budget some additional support, especially for lower-income groups and retirees, to help them with their costs of living. (Refer to Annex B-3.)

### **One-off GST Voucher – Cash: Seniors' Bonus**

D.94. Older Singaporeans are broadly most affected by increase in cost of living, especially retirees with little or no incomes. We will provide eligible Singaporean seniors with a special GST Voucher – Cash: Seniors' Bonus (See Table 6). This will effectively double the GST Voucher – Cash that they usually receive. The additional cash will help them offset some of their daily expenses.

Table 6: GST Voucher – Cash: Seniors' Bonus

<b>For Singaporeans aged 55 and above in 2014</b>	<b>Annual Value of Home as at 31 Dec 2013</b>	
<b>Assessable Income for Year of Assessment 2013</b>	<b>Up to \$13,000</b>	<b>\$13,001 to \$21,000</b>
Up to \$26,000	\$250	\$100

D.95. About 675,000 Singaporeans aged 55 and above in 2014 will benefit from this. This will cost \$170 million.

### **One-off GST Voucher – U-Save Special Payment**

D.96. We will also provide a one-off GST Voucher – U-Save Special Payment this year. The rebates will be larger for those in smaller flats (See Table 7). Through these additional rebates, eligible households will be able to free up cash for their other expenses.

D.97. This will benefit approximately 800,000 HDB households, and will cost the Government \$110 million.

Table 7: One-off GST Voucher – U-Save Special Payment

HDB Flat Type	% of Regular Payment	GST Voucher – U-Save Regular Payment	<b>GST Voucher – U-Save Special Payment</b>
1-Room	100%	\$260	<b>\$260</b>
2-Room	100%	\$260	<b>\$260</b>
3-Room	75%	\$240	<b>\$180</b>
4-Room	50%	\$220	<b>\$110</b>
5-Room	50%	\$200	<b>\$100</b>
Executive	50%	\$180	<b>\$90</b>

### **One-off Service and Conservancy Charges Rebates**

D.98. We will also provide one to three months of Service & Conservancy Charges (S&CC) rebates. (See Table 8). 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.

Table 8: S&CC Rebates

HDB Flat Type	S&CC Rebates (months)
1-Room	3
2-Room	3
3-Room	2
4-Room	2
5-Room	1.5
Executive	1

## How Singaporeans will Benefit

- D.99. These enhancements in social support outlined in Budget 2014 will help all Singaporeans, with a special emphasis on the needs of our seniors.
- D.100. The Pioneer Generation will get assurance on their healthcare costs for the rest of their lives. (See paragraphs D.59 to 63 for a summary of the benefits to the Pioneer Generation.)
- D.101. Our lower- and middle-income families will enjoy enhanced assistance for pre-school and tertiary education. They will also benefit from the increased subsidies at our SOC's, and they will receive subsidies for MediShield Life later on. In addition, they will benefit from increased employer Medisave contributions. Those who are older will also see increased CPF contributions. Further, our enhanced tax reliefs will help the large number of Singaporeans who look after their parents and grandparents.

D.102. Persons with disabilities will benefit from our increased support for early interventions when they are young. Our new transport subsidies will also help them in their schooling years, during their working lives and beyond. Finally, their families will benefit from the enhanced tax reliefs for handicapped dependants.



## **E. Other Tax Changes**

- E.1. I will also take the opportunity to make a series of other tax changes.

### **Vehicle Taxes**

- E.2. First, I will make adjustments to our vehicle taxes to enhance incentives for environmentally-friendly vehicles.

#### **Early Turnover Scheme**

- E.3. The Early Turnover Scheme was introduced last year to encourage replacement of old commercial diesel vehicles to meet the new Euro V emissions standards. Owners who de-register their Pre Euro and Euro I vehicles before the end of statutory life will pay lower, pro-rated COE premiums for their replacement vehicle, as they can transfer the unused period of their COE to the replacement vehicle. They will also get a bonus COE period for their replacement vehicle based on the current vehicle's remaining statutory life.
- E.4. We will enhance the bonus COE period to further incentivise owners to replace their vehicles early. The Minister for the Environment and Water Resources will announce more details during the COS.

#### **Carbon Emissions-based Vehicle Scheme**

- E.5. Last year, we introduced the Carbon Emissions-based Vehicle Scheme (CEVS) to improve the take-up of green vehicles. Car models with low carbon emissions will enjoy generous rebates on their Additional Registration Fee (ARF) of up to \$20,000, while those with high carbon emissions will have to pay a registration surcharge of up to \$20,000.
- E.6. We are encouraged by the results so far - more than 50% of the new cars registered in 2013 received CEVS rebates while about 10% paid the surcharge. This is an improvement over 2012, where only about 40% of the new cars registered would have been in the rebate bands and about 14% in the surcharge bands.

- E.7. As the CEVS was introduced last year amidst other changes to the COE system and the introduction of tiered ARF, we should observe the full impact of CEVS before making refinements. Hence, I will extend CEVS by six months until June 2015, with a view towards continuing the scheme thereafter.
- E.8. Next, I will raise duties on betting, tobacco and liquor, in line with our social objective of avoiding excessive consumption or indulgence in these areas.

## **Tobacco Excise Duties**

- E.9. Duties on cigarettes and manufactured tobacco products have remained constant since 2005. In the meantime, smoking prevalence has increased, especially amongst youths aged 18 to 29. To discourage this trend, I will raise the excise duties for cigarettes and manufactured tobacco products by 10%. (Refer to Annex A-5.)
- E.10. This is expected to yield additional revenue of about \$70 million a year.

## **Liquor Excise Duties**

- E.11. The last effective increase in liquor duties was made 10 years ago, in 2004, when we rationalised our liquor duties to bring them in line with our international obligations. We will now raise the excise duty rate of all liquor types by 25% to keep pace with inflation. (Refer to Annex A-5.)
- E.12. These changes will take effect today and result in a revenue gain of about \$120 million a year.

## **Betting Duties**

- E.13. I will raise the betting duty rates on lotteries from 25% to 30% of gross bets, from 1 July 2014. The rate increase affects Singapore Pools. Private clubs are not affected as they pay different duties on their jackpot machine takings.
- E.14. The Tote Board will have adequate resources to continue its donation activities.

- E.15. The additional duties will increase Government revenues by \$255 million a year.
- E.16. The other tax changes are reflected in the Annex. (Refer to Annex A-5.)

## F. Budget Position

### FY2014 Budget Position

- F.1. Madam Speaker, before I go on to summarise the FY2014 budget position, let me set out how we will fund the Pioneer Generation package.
- F.2. We estimate that the cost of providing the extra benefits to the Pioneer Generation over their lifetimes will be slightly over \$9 billion in nominal terms.
- F.3. It is right and prudent to set aside monies today to pay for the Pioneer Generation Package, while we have sufficient resources to do so.
- F.4. We will therefore set aside monies in Budget 2014 that will enable us to meet the full projected cost of the package. We will create a Pioneer Generation Fund for the purpose and set aside \$8 billion into the Fund. The \$8 billion, with accumulated interest over time, will be enough to pay for the full projected cost of the package, including a buffer for inflation.<sup>10</sup> Of the \$8 billion in the Fund, we expect that about half will be drawn down in the first ten years, due to the age profile of the Pioneer Generation and the higher benefits for older members.
- F.5. With this Fund, we assure the Pioneer Generation that Singapore will honour our commitment to them, regardless of future economic or fiscal circumstances.
- F.6. The Fund also ensures that Budgets in subsequent years can focus on the needs and challenges of the future, for all Singaporeans. Our spending needs will grow significantly in the next 10 to 15 years. Investments in infrastructure, such as HDB estate renewal, MRT expansion, and Changi Airport Terminal 5 will accelerate. Government healthcare spending for the population as a whole will grow, quite apart from the extra benefits we are providing the Pioneer Generation. We are also spending more on education. On pre-schools, in the next 5 years, we are spending an additional \$1.5 billion. We are expanding

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<sup>10</sup> This does not include the \$260 million required to cover the benefits which will be made available this year.

university education and enhancing the polytechnic and ITE pathways. We will also do much more in continuing education for workers.

- F.7. The \$8 billion Pioneer Generation Fund is not intended to cover the underlying healthcare subsidies that the Pioneer Generation receives together with all Singaporeans. These will continue to be funded from future annual budgets. For example, the enhanced SOC subsidies in this year's Budget are part of our future budgetary spending and we have planned for them on that basis.
- F.8. After including the Pioneer Generation Fund and various measures in this year's Budget, and factoring in the Net Investment Returns Contribution, the Overall Budget Balance is a deficit of \$1.2 billion, or about 0.3% of GDP. This is close to a balanced budget, and will not result in a draw on past reserves as we have sufficient surpluses from the last few years.

## G. Conclusion

- G.1. Madam Speaker, let me conclude very briefly. This Budget builds on the changes that we have been making in recent years as Singapore enters a new phase. We are transforming our economy to sustain improvement in incomes; we are opening up new opportunities for the young; and we are giving more assurance to our seniors.
- G.2. We can never be certain of the future. But the Pioneer Generation has given us something beyond the material. As the Prime Minister put it at the Pioneer Generation Tribute Event on 9 February, it is the pioneering spirit – to be self-reliant, never-say-die, and to be united in purpose.
- G.3. One of the people I met again at the Tribute Event was Madam Fong Yuet Kwai. She is now retired. She had been an educator for over four decades at Nan Hua Primary, including 21 years as principal, working tirelessly during the switchover from Chinese-stream to English-stream and strengthening the school year by year. Madam Fong was diagnosed with cancer in 1997. She took a break, but came back after six months to re-immense herself in school life. I was at Education a decade ago when she finally retired, and so I met her to thank her for her contributions to education. Her reply was simple: “It was my duty”.
- G.4. The best we can do for the Pioneer Generation is to live according to their values as we seek to build a better future for Singapore.
- G.5. Madam Speaker, I beg to move.