Center for Social Development

GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK

POLICY BRIEF

| JUNE 2007 | CSD PUBLICATION NO. 07-36 |

Building Children's Assets in Singapore: The Post-Secondary Education Account Policy

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Summary

The Second Minister for Finance of Singapore, Mr. Tharman Shanmugaratnam, announced in his 2007 budget speech enhancements to Singapore's Post-Secondary Education Account (PSEA), a national asset-building program to support families through investment in children's further education. According to the Minister, "all Singapore citizen children aged from seven to 20" will have PSEAs opened for them starting from 2008. In addition, the Singapore government "will top up these accounts from time to time, when … surpluses allow, and give more to those who are less well-off."

The PSEA program is the latest of three national asset-building programs targeting children in Singapore.[1] The other two programs are the Children Development Account (CDA) targeting children from birth to age 6, and the Edusave account for school-going children aged six to 16. Unused balances in CDAs, Edusave accounts and PSEAs will be rolled over to the Central Provident Fund (CPF)[2] account which follows the account holder for the rest of his/her life. Together, these four accounts provide a comprehensive cradle-to-grave asset building system for Singapore's new generation.

Post-Secondary Education Account

Context

At the 2005 National Day Rally, Mr. Lee Hsien Loong, Prime Minister of Singapore, announced the creation of the Post-Secondary Education

[1] While the various programs are categorized as asset-building in orientation, the underlying purposes are more complex. The objectives behind each policy are different, ranging from supporting families and investing in children, to promoting birth rates. Asset-building is seen as a means towards these various ends. See the last section for a description of the Edusave scheme and Children Development Account.

[2] The Central Provident Fund is a mandatory savings account that every employed person contributes to, with matched contributions from employers. The savings, while primarily meant for retirement, can be used for medical expenses, and for a variety of asset-building purposes such as the purchase of homes, investments, investment-linked life insurance, as well as for tertiary educational expenses.

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Account (PSEA) as part of the government's efforts to encourage every Singaporean to build a pool of financial resources to pursue post-secondary education.

With it, "every student can then draw on this account, [and use the funds to] go to poly [Singapore Polytechnic], ITE [the Institute of Technical Education], or university in Singapore." According to Prime Minister Lee, the program underscores the government's commitment to "help each family to invest in the best education that their children can get, which is the best investment they can make" to prepare their children for the economy of the future.

Enhancements and implementation. PSEAs will be opened for every Singaporean aged seven to 20 in 2008. Previously, only children with Children Development Accounts (CDAs), which target children from birth to age six, were eligible for PSEAs. In addition, the Singapore government has allocated S$400 million (about US$ 264 million) to kick-start the accounts of about 650,000 eligible children in the country. Depending on the financial situation of each household, children between ages 13 and 20 will receive S$200 or S$400 (US$132 or US$264) in 2008, and the same amount again in 2009. Children between ages seven and 12, who have more opportunities for government top-ups in the future, will receive S$100 or S$200 (US$ 66 or US$132) each year over the same period.

Unused savings in a child's CDA will be transferred to the PSEA once the child enters primary school at age seven. The first batch of children will have their unused CDA balances transferred to the PSEAs in 2008. Unused balances in Edusave accounts, which target school-age children (6–16), will also roll over to the PSEA when the child reaches age 16 or when he/she leaves secondary school, whichever is later.

Families can contribute to the PSEAs until the child reaches age 18. For CDA-eligible children, the government will match family contributions up to a combined CDA and PSEA cap of S$6,000 (US$3966) for the second child, and up to S$12,000 (US$7932) each for the third and fourth children.

Funds in the PSEAs can be used for approved post-secondary education expenses, and unutilized balances will be transferred to the account holder's Central Provident Fund (CPF) account when the account holder reaches age 30.

The enhancements are significant in four ways: (1) A 100% reach of Singaporean children aged seven to 20. Previously, only 55% of Singaporean children (those who were eligible for CDAs[33]) were eligible for PSEAs; (2) Coverage extended to children born in or after 1988. Previously only children who were born in or after 2001 were eligible for PSEAs; (3) An extension of the upper age limit from age 18 to age 20 to give children more time to accumulate savings in their PSEA; and (4) Government financial support to start off the PSEAs with potential for future top-ups.

Potential and challenges. The PSEA program presents a great opportunity for Singapore's government to create a comprehensive and inclusive asset-based savings program for every child. Incentives such as government matches, regardless of CDA eligibility, and tax benefits for contributions could be introduced to encourage families to contribute to the accounts. With a time horizon of up to 23 years – from the time the account is opened at age seven to the time it is rolled over at age 30 – more investment choices could also be provided to account holders to grow their accounts at potentially higher rates of return, apart from the interest-bearing account option at present. In addition, the scheme could be made even more progressive with higher match rates and larger top-ups for children from less advantaged families.

In its current formulation, however, the PSEA scheme can be viewed as simply an extension of the Edusave Scheme from age 16 to age 20, albeit with a different set of restrictions on the usage of the funds. While parents may contribute into the PSEAs of their children, there is little incentive for them to do so. Like the Edusave accounts, the PSEAs may become just another account with which to passively receive governmental transfers.

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[3] Only those of the 2nd to 4th birth order born on or after Apr 1, 2001, are eligible to open CDAs. This works out to about 55 percent of children born each year.

In addition, there may be elements of inequality as only some of the PSEAs are eligible to have their private contributions matched.[44]

Background on Other Asset-Building Schemes for Children

Edusave Scheme

Singapore's Edusave Scheme was implemented in 1993 for schoolchildren between the ages of six and 16, with the objective of maximizing educational opportunities for them. The government opens an interest-earning Edusave account for each child. The account attracts annual government contributions. Each child can expect to receive S$4,000 (US$2620) in their interest-earning Edusave accounts during their ten years in school. The savings in the Edusave accounts can be used only for enrichment programs for the children.

In 2007, the government contributed between S$170 and S$200 (US$112 and US$132) to each child's Edusave account that had been automatically opened. Unused balances in the Edusave account can now be transferred to the child's PSEA when the child reaches 16 or when he/she leaves secondary school, whichever is later.

In addition to the annual contributions, the Edusave Scheme provides unrestricted incentive rewards of between S$50 and S$500 (US$33 and US$330) annually to students who perform well or make good progress in academic or co-curricular activities through Edusave Scholarships and through means-tested Edusave Bursaries for children from low-income families. To ensure that no promising child is deprived of an independent school education (equivalent to private school education in the United States) due to economic reasons, the top performing students in the independent schools have their fees paid by the Edusave Scheme as well. The Edusave Scheme is funded by the interest earned from the S$5 billion (US$3.3 billion) Edusave Endowment Fund established by the government.

[4] Presently, only accounts holders who have 'graduated' from the CDA and who have not yet met the CDA match cap are eligible to have their private contributions into the PSEA matched. Only about 55 percent of children born on or after 2001 are eligible for CDA. From 2008, around 20,000 CDAs or less will roll over into the PSEA each year. This represents around 3 percent of all PSEAs in 2008.

Baby Bonus Scheme and Children Development Accounts

In 2001, the Singapore government introduced the Baby Bonus Scheme as part of the government's overall effort to increase fertility rates and create an environment conducive to raising families.

Refined and expanded in 2004 and further enhanced in 2005, two tiers comprise the program. The first tier consists of an unrestricted cash gift from the government of S$3,000 (US$1983) for the first child and second child, and S$6,000 (US$3966) each for the third and fourth children. This cash gift is deposited directly into a savings account. The second tier consists of Children Development Accounts (CDAs) for the second to fourth children. Families can make contributions to these interest-earning CDAs over a period of six years. The government will match families' contributions at 1:1 up to a cap of S$6,000 (US$3966) for the second child, and a cap of S$12,000 (US$7932) each for the third and fourth children. According to then Prime Minister Goh Chok Tong, the matching contribution is an important feature of the scheme because it recognizes that parents have the primary responsibility of supporting their children.

Overall, under the Baby Bonus Scheme, the first child receives S$3,000 (US$1967), the second child receives up to S$9,000 (US$5900), and the third and fourth children each receive up to S$18,000 (US$11800). Funds in the CDAs may be used for children from birth to age six to cover expenses related to childcare, preschool, special education or early intervention programs, and for medical care and insurance. Unutilized account balances in a child's CDA is transferred to the child's PSEA once the child enters primary school.

Since the Baby Bonus scheme was introduced in April 2001, the Singapore government has disbursed S$420 million (US$277.6 million) to the parents of 133,000 newborns, and cofunded 89,000 co-savings accounts that were opened, which amounted to another S$270 million (US$178.5 million) . In addition, 69% of CDAs have been used for kindergarten and childcare fees.

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