

HEALTH RISK MANAGEMENT AND FUNDING IN THE “GIG ECONOMY”

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commentary

Protecting the retirement nest egg in the gig economy

INVESTING PROJECTION AT THE AGE OF 65 FOR THREE SCENARIOS

Key assumptions — Starting salary: S\$2,856 (85% of S3,360, the median salary for university graduates in 2016); income growth rate: 2%; inflation rate: 2%; constant CPF interest rate as of today; no withdrawals between ages 55 and 64. Sources: CPF; MOM; Singstat; local and regional news; Asia Pacific Risk Centre analysis

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Sixty-six years ago, the Central Provident Fund (CPF) Bill was raised in the Legislative Council in Singapore.

The motivation was straightforward, as the CPF Board website explains: "Many workers, except those working in the civil service or in some of the larger companies, were not provided with any form of retirement benefits by their employers. As a result, the workers had to depend on their personal savings when they retired, which was insufficient in most cases."

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Mandatory social-protection systems like the CPF exist in the first place to “**protect people from themselves**”, since most find it difficult to put aside money for retirement, as present needs take precedence...

MP for West Coast GRC Foo Mee Har, who has spoken on the issue in Parliament, told TODAY that job security was cause for worry in the expanding gig economy, and it also poses a “**significant social safety risk**”. She acknowledged, however, that with the right set of policies, the gig economy would pave the way for much higher workforce participation.

In the worst-case scenario, Mr Song said there may be “huge social implications” if there is a pool of older, former temporary workers without CPF savings and other benefits which permanent workers take for granted. “It will be a case of who feeds, shelters and looks after them,” he added. ”

Agenda Today

- Yesterday: History of CPF and its role in the Singapore Social Security system
- Today: What's happening to the nature of the employment?
- Tomorrow: Would CPF be adequate to offer social and health protection in the "Gig Economy"?
- What are the implications to healthcare protection?
- What's happening in the world?
- What can Singapore do?

CPF, the bedrock of Singapore's social security framework, was founded on the principles of self-provision and self-reliance

The Philosophical Underpinnings



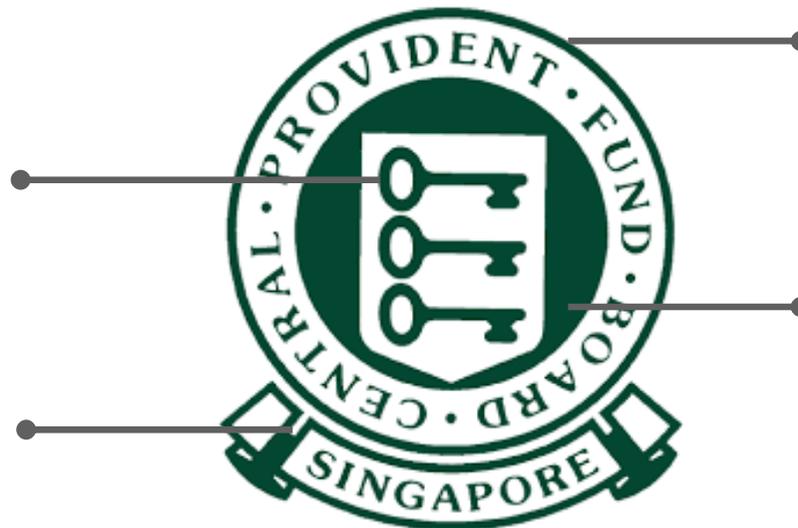
It is when people are encouraged to excel by **being able to keep a large part of the extra reward earned by their extra efforts** that the society as a whole becomes wealthier. Hence we **ensured that your CPF is yours...** This is your wealth, the savings of people in individual accounts are not government reserves.



The Structural Tenets of CPF

The three keys represent the unity of the tripartite relationship among **Employees, Employers** and the **Government**

The colour green highlights the need for CPF's constant growth and dynamism

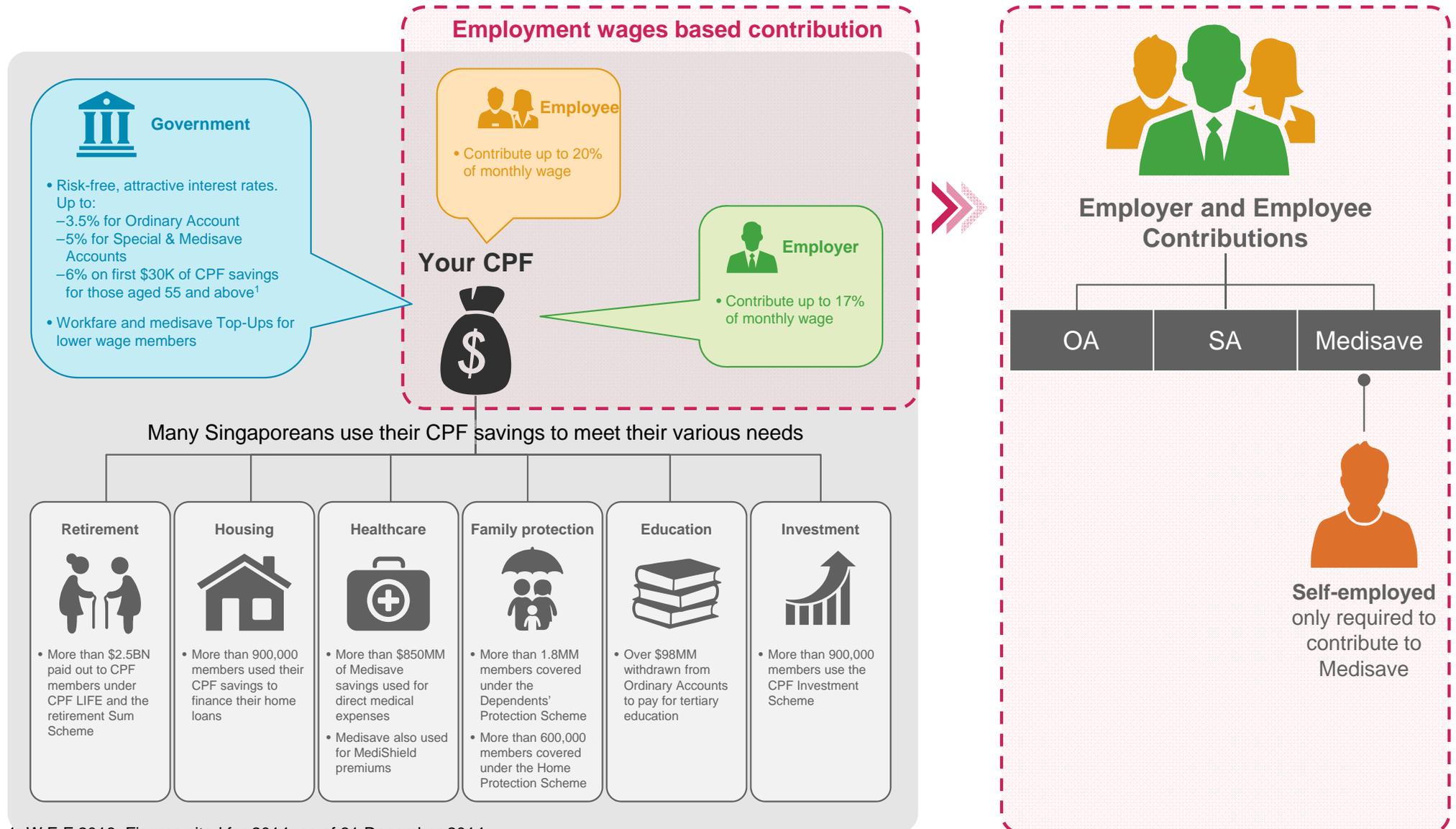


The circle emphasizes the **completeness of the CPF system as a national social security savings scheme**

The shield represents security and protection for members in their **retirement**

Sources: National Archives - Speech by Prime Minister Lee Kuan Yew, at The Fullerton Square Rally on 19 December 1984; CPF

The CPF framework is uniquely Singapore, with a structure built on formal employment driven contributions primarily for retirement and housing

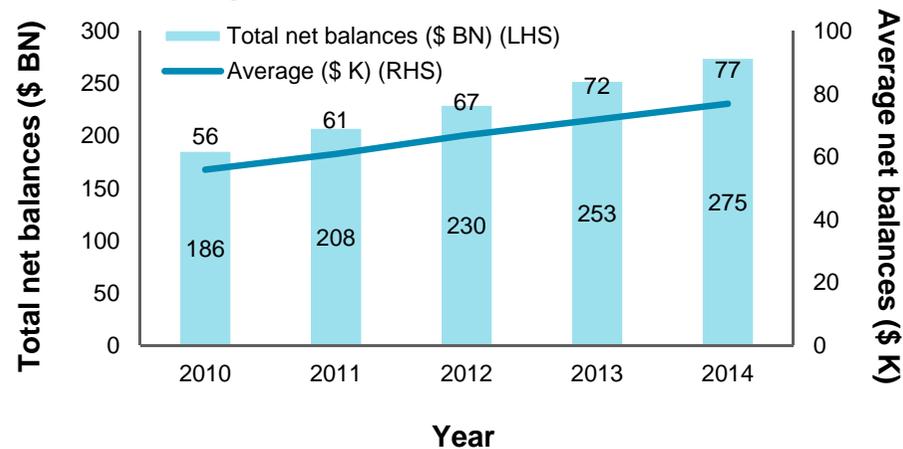


1. W.E.F 2016. Figures cited for 2014, as of 31 December 2014

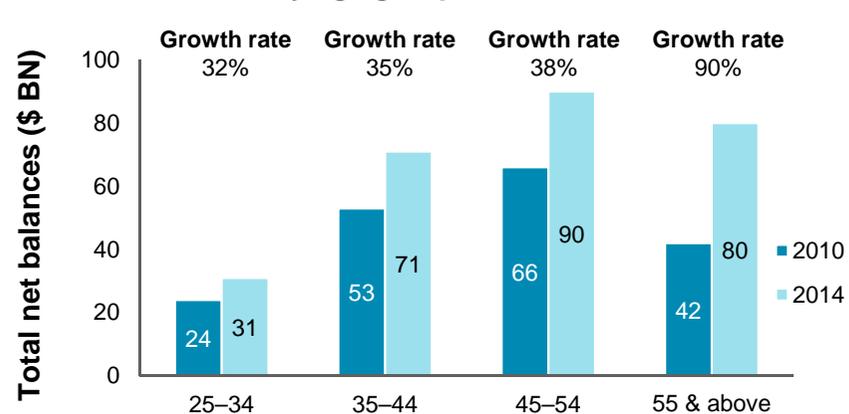
With the current framework, CPF has managed to meet Singaporeans' retirement needs coupled with social protection to a considerable extent

CPF Net balances growing steadily, and building the retirement funds for individuals

Total and average net balances from 2010 to 2014

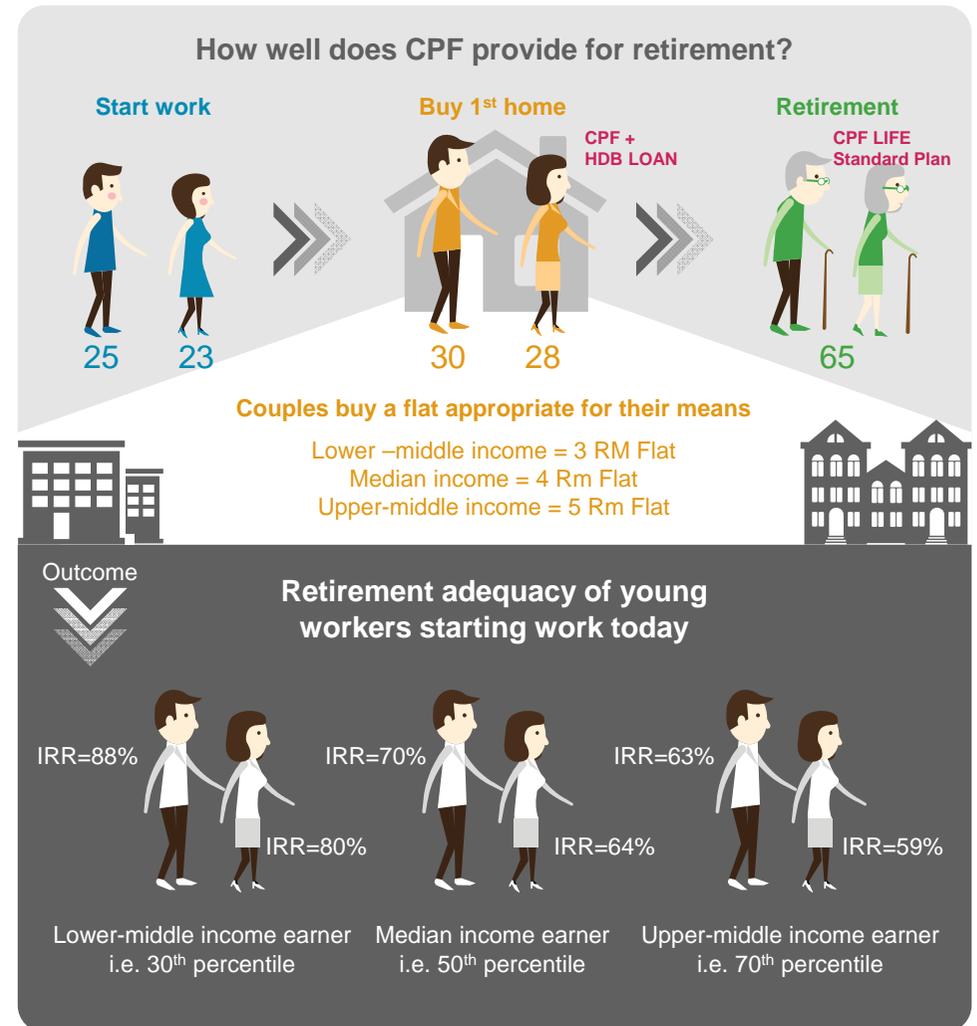


Total net balances by age groups from 2010 to 2014



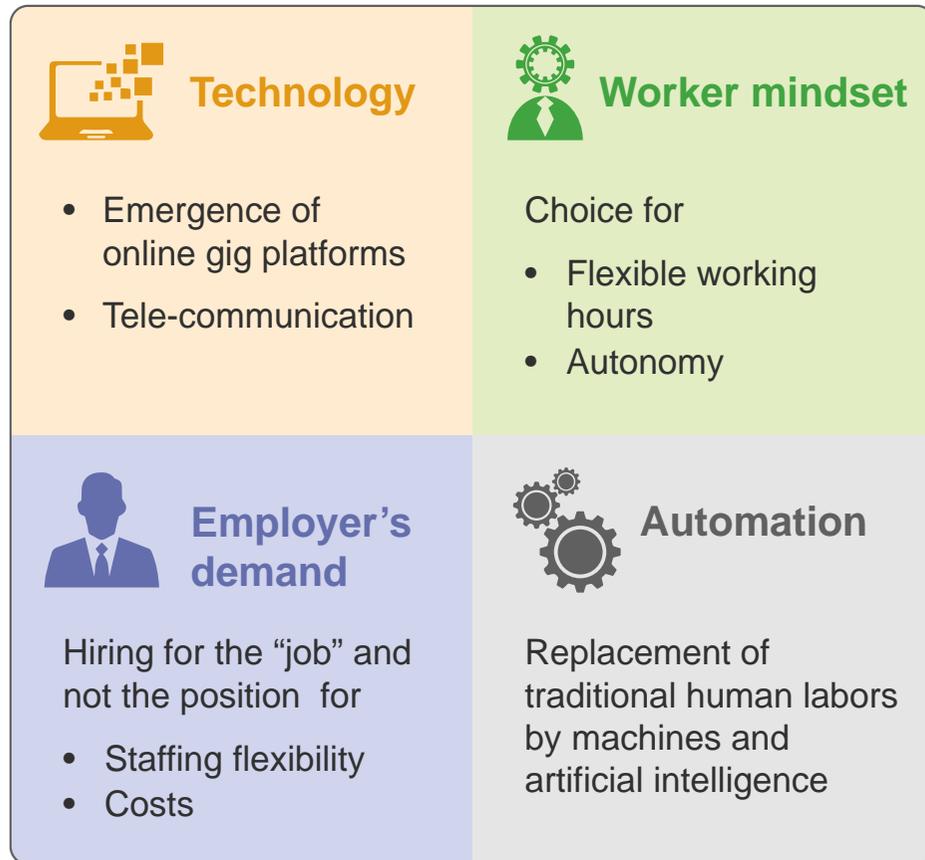
IRR: Income Replacement Ratio. Sources: CPF Trends-CPF net balances, 2015

With lifetime contributions, CPF provides an adequate income replacement at retirement



In the new economy, however, “employment” is being redefined, driven by technology and changing mindsets of employers and employees

Drivers of Changing Trends in the Nature of Employment



hrmasia
Gig economy posing fresh challenges to Singapore employers

HRM Asia - 23 Feb 2017

Source: Graduate Employment Survey from NTU (Art, Design and Media), SMU (Social Sciences), NUS (Industrial Design); Willis Towers Watson 2016 Global Talent Management and Rewards Study

THE STRAITS TIMES

2016: A YEAR OF DISRUPTION

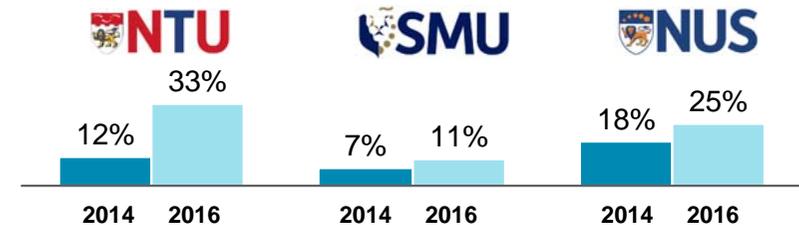
A year of disruption: From jobs to gigs



Freelance jobs in Singapore on the rise



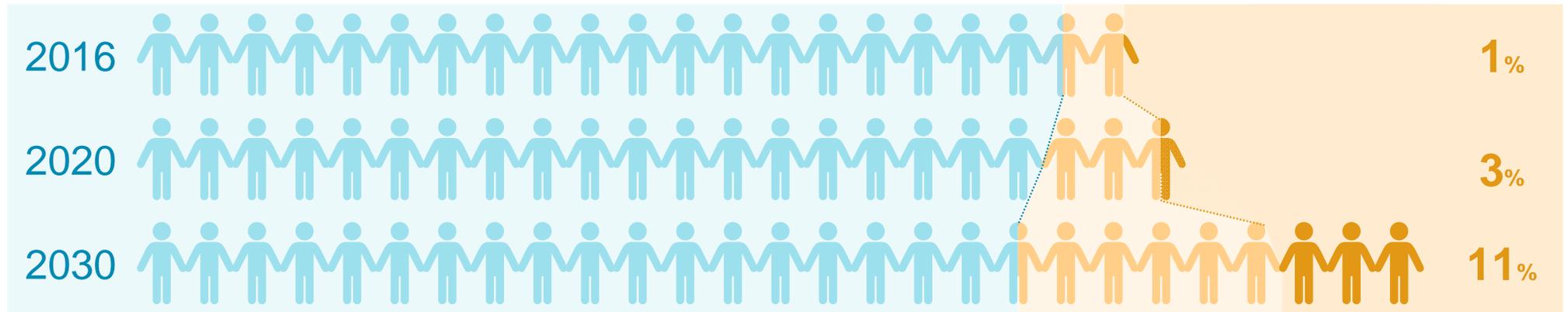
University graduates taking on part-time, temp and freelance jobs in Singapore



Though only 1% of Singapore's workforce is categorized as gig-freelancer today, the share is expected to growth at a rapid speed going forward

Working residents in Singapore ( =100,000)¹

 Employed  Traditional freelancer  Gig freelancer



Gig economy rapid growth – examples

 <p>2,500 drivers in Singapore (~90% are freelancers)</p>	 <p>25,000 private cars combined in Singapore</p>	 <p>8,000 users, 39% growth in membership since 2015</p>
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“Facilitated by technology, we can expect the gig economy to keep growing.....MOM is monitoring closely the potential impact of online platforms on the long-term well-being of the workers”

– Mr Lim Swee Say, MOM speech on 6 Mar 2017

1. Assuming 15%, and 30% increase YoY in share of total freelancers and gig freelancers respectively between 2017 and 2020, growth rate reduce by half in between 2020-2030, based on Wills Towers Watson's estimate for 59% increase in share of contingent workers between 2017-2020 in Singapore
Source: Speech on CPF and gig economy by Mr Lim Swee Say, MOM, company websites, regional news, Willis Towers Watson 2016 Global Talent Management and Rewards Study, Oliver Wyman analysis

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3 archetypes are introduced as examples to showcase the impact of employment type on CPF savings

PMET employee



Employed since age of 24

With property

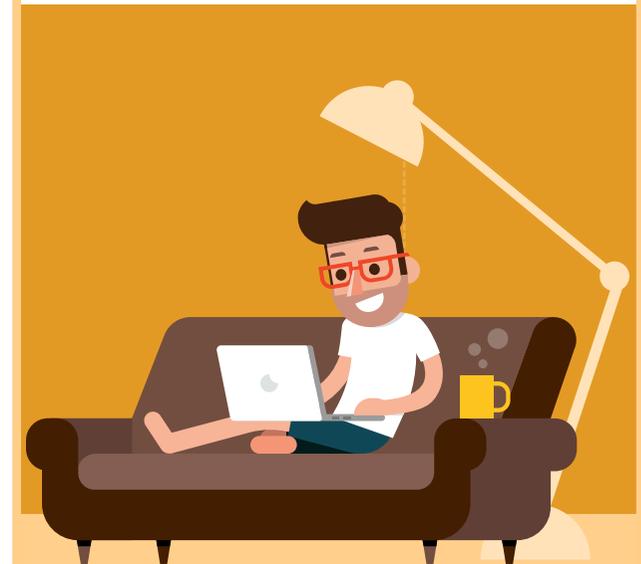
Switched freelancer



Employed from age of 24 to 45, switched to freelancer at the age of 45

With property

All-time freelancer

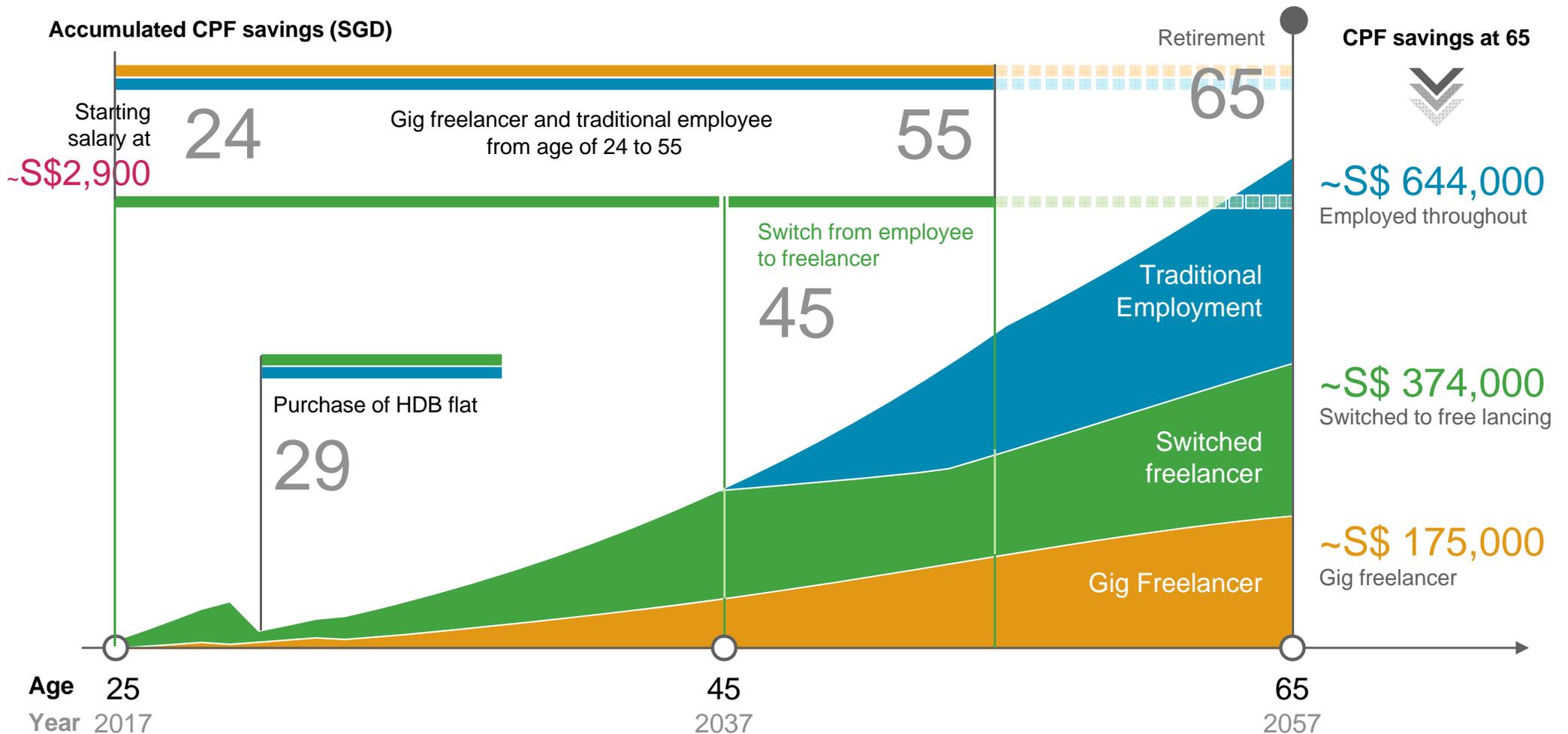


Freelance since age of 24

Without property

Without continuous CPF contribution, significant gaps exist for retirement savings for all freelancers

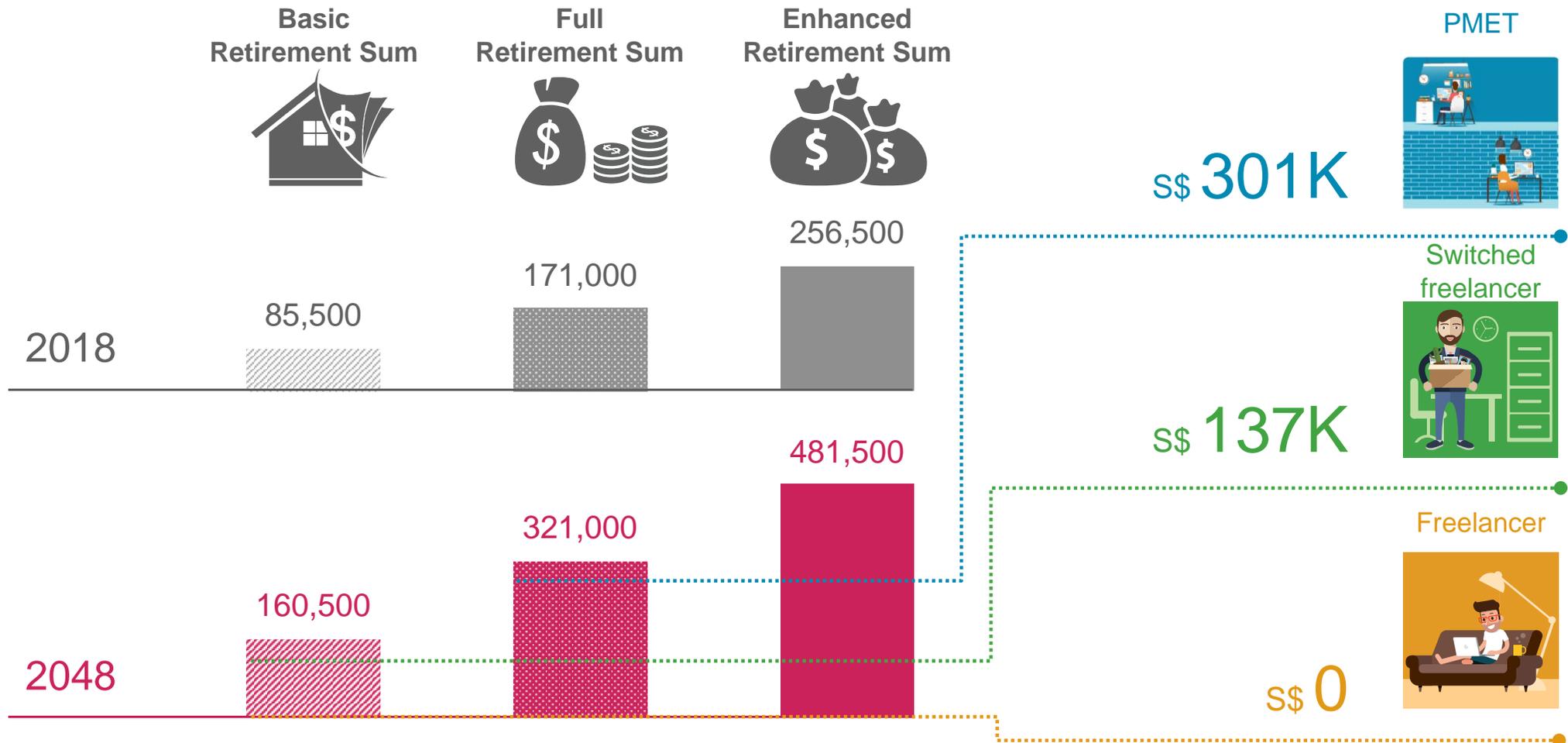
CPF savings projection at the age of 65 for three scenarios



1. Key assumptions: Starting salary: S\$2,856 (85% of S\$3,360, the median salary for university graduates in 2016); income growth rate: 2%; inflation rate: 2%; constant CPF interest rate as of today; no withdrawals between ages 55 and 64 years. Source: CPF; MoM; Singstat; local and regional news; Oliver Wyman analysis

CPF savings of freelancers and switched freelancers are unlikely to meet even the CPF Basic Retirement Sum set by government

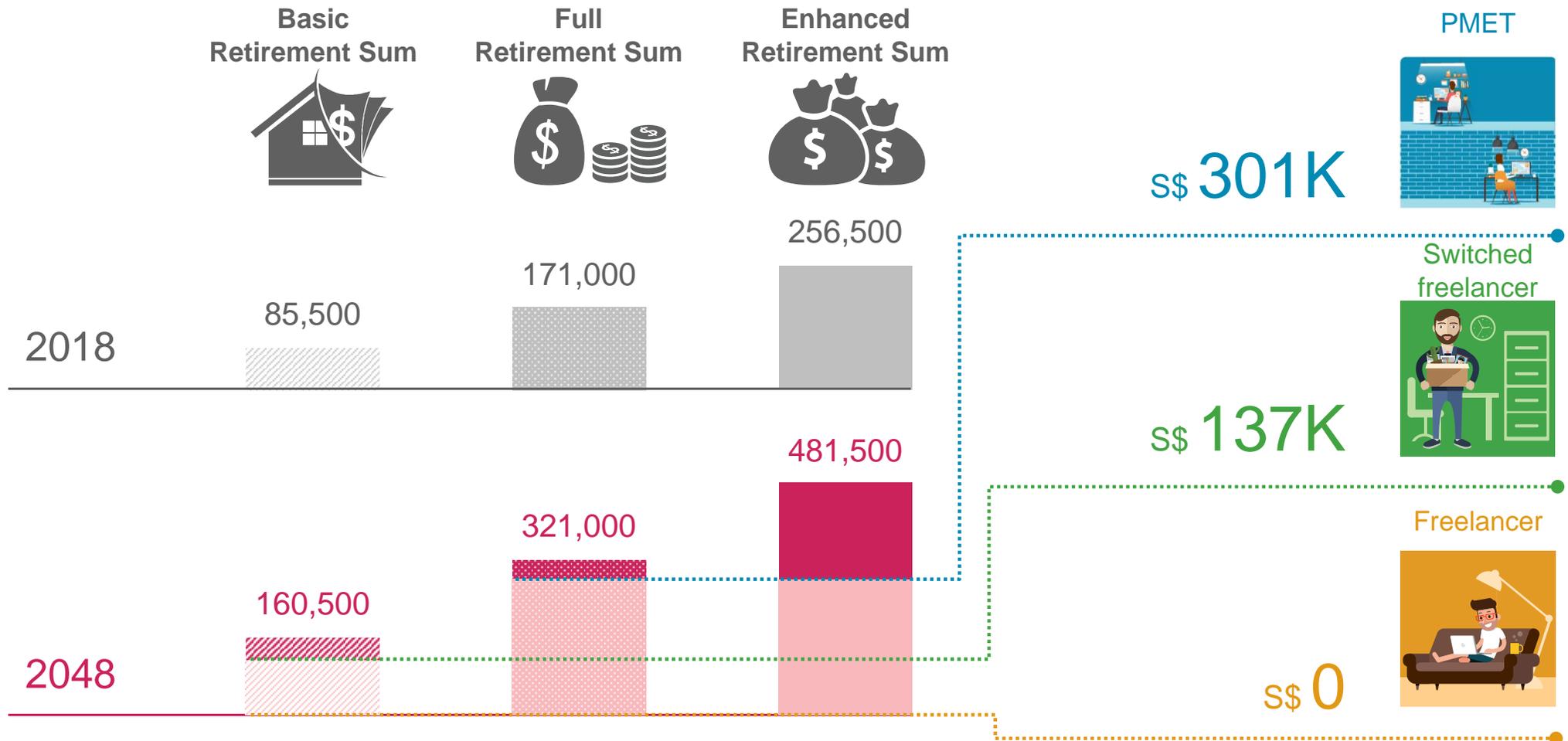
When one reaches age 55 in...



1. Key assumption: Starting salary: S\$2,856 (85% of S\$3,360, the median salary for university graduates in 2016); income growth rate: 2%; inflation rate: 2%; constant CPF interest rate as of today. Source: CP, MoM; Singstat; Oliver Wyman analysis

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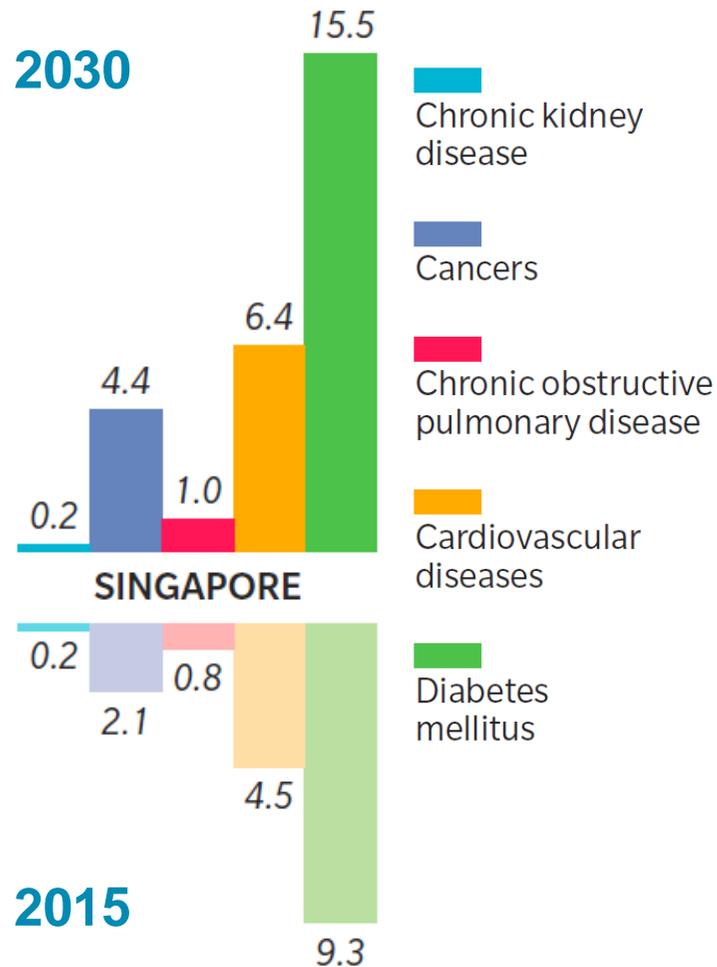
When you reach age 55 in...



1. Key assumption: Starting salary: S\$2,856 (85% of S\$3,360, the median salary for university graduates in 2016); income growth rate: 2%; inflation rate: 2%; constant CPF interest rate as of today. Source: CP, MoM; Singstat; Oliver Wyman analysis

The aging demographic in Singapore will drive an increase in the prevalence of chronic disease, resulting in higher healthcare costs for households

Projected increase in chronic diseases

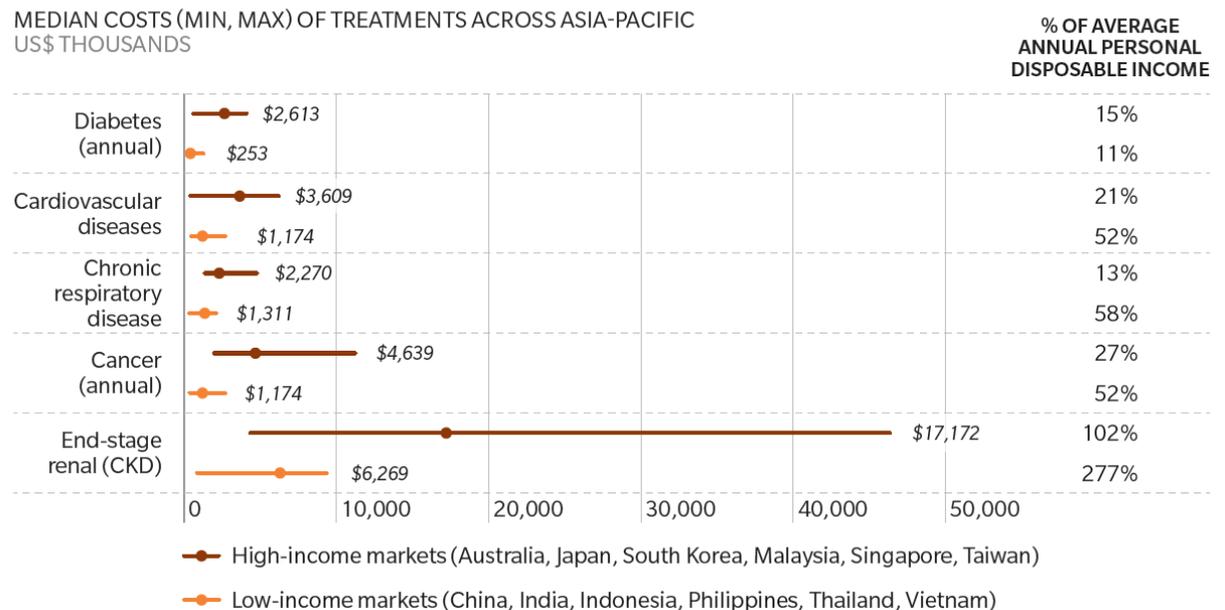


Cost of treating NCD Across APAC

- Even for high-income countries like Singapore, treatment for NCD costs more than 10% of the average annual disposable income
- Without sufficient insurance coverage, treatment cost for cancer or CKD can be financially catastrophic

COST CHARTS OF NCD TREATMENTS

MEDIAN COSTS (MIN, MAX) OF TREATMENTS ACROSS ASIA-PACIFIC
US\$ THOUSANDS

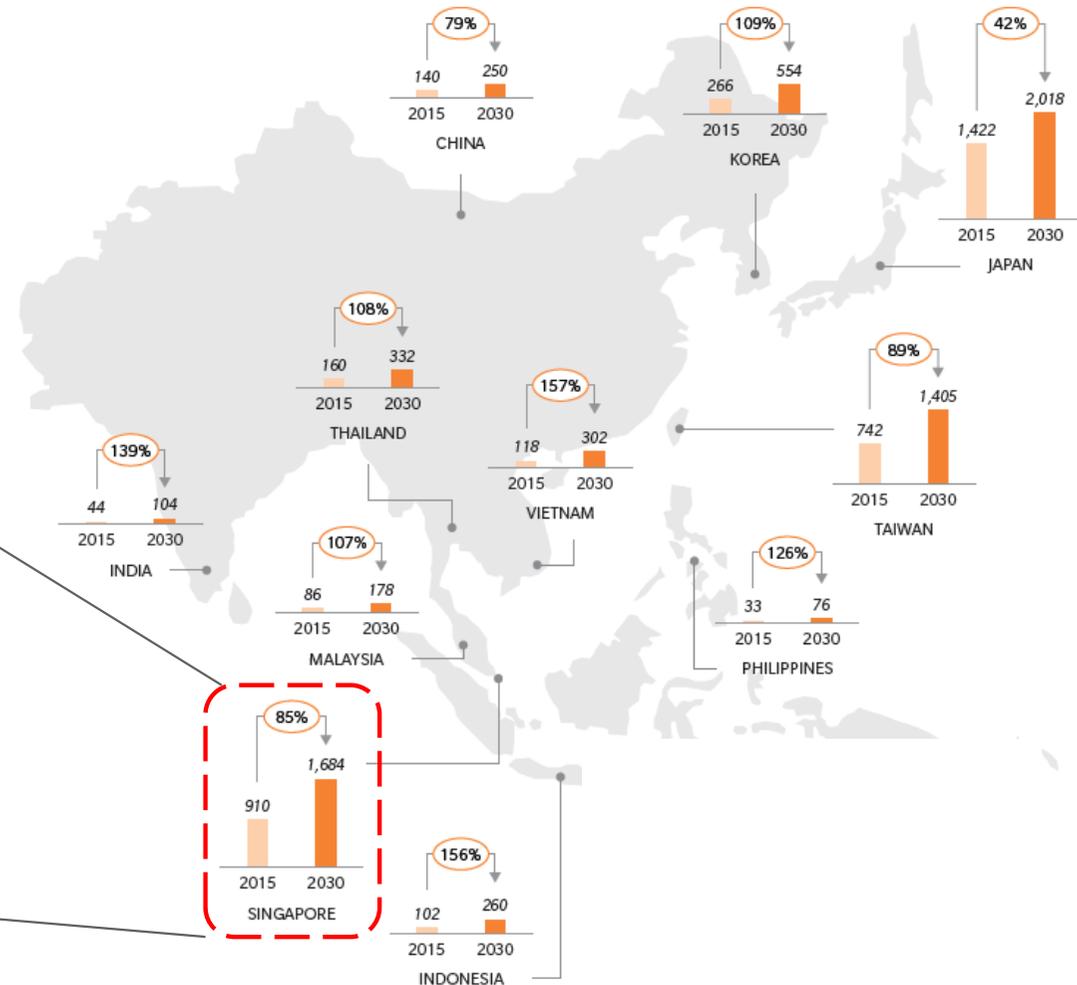
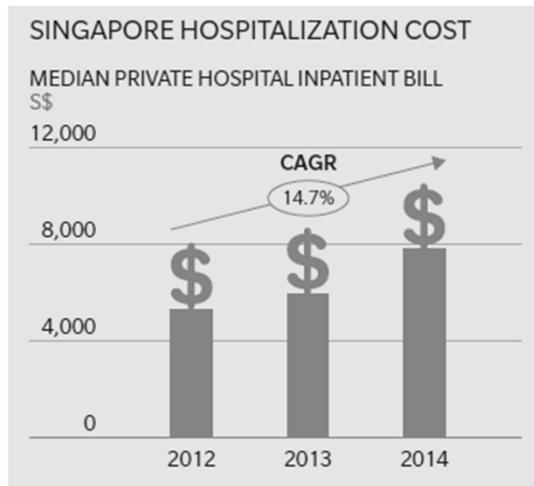


Source: Social Aging's Threat to Healthcare Insurance, Asia Pacific Risk Center, Marsh McLennan Companies

Healthcare costs are increasing, so are health insurance premiums

- Healthcare cost in Singapore has been growing (14.7% CAGR for private hospital inpatient bill), and is expected to continue to grow at higher speed
- Higher healthcare costs translates into higher insurance premiums, and higher costs for insurees, especially with private individual plans

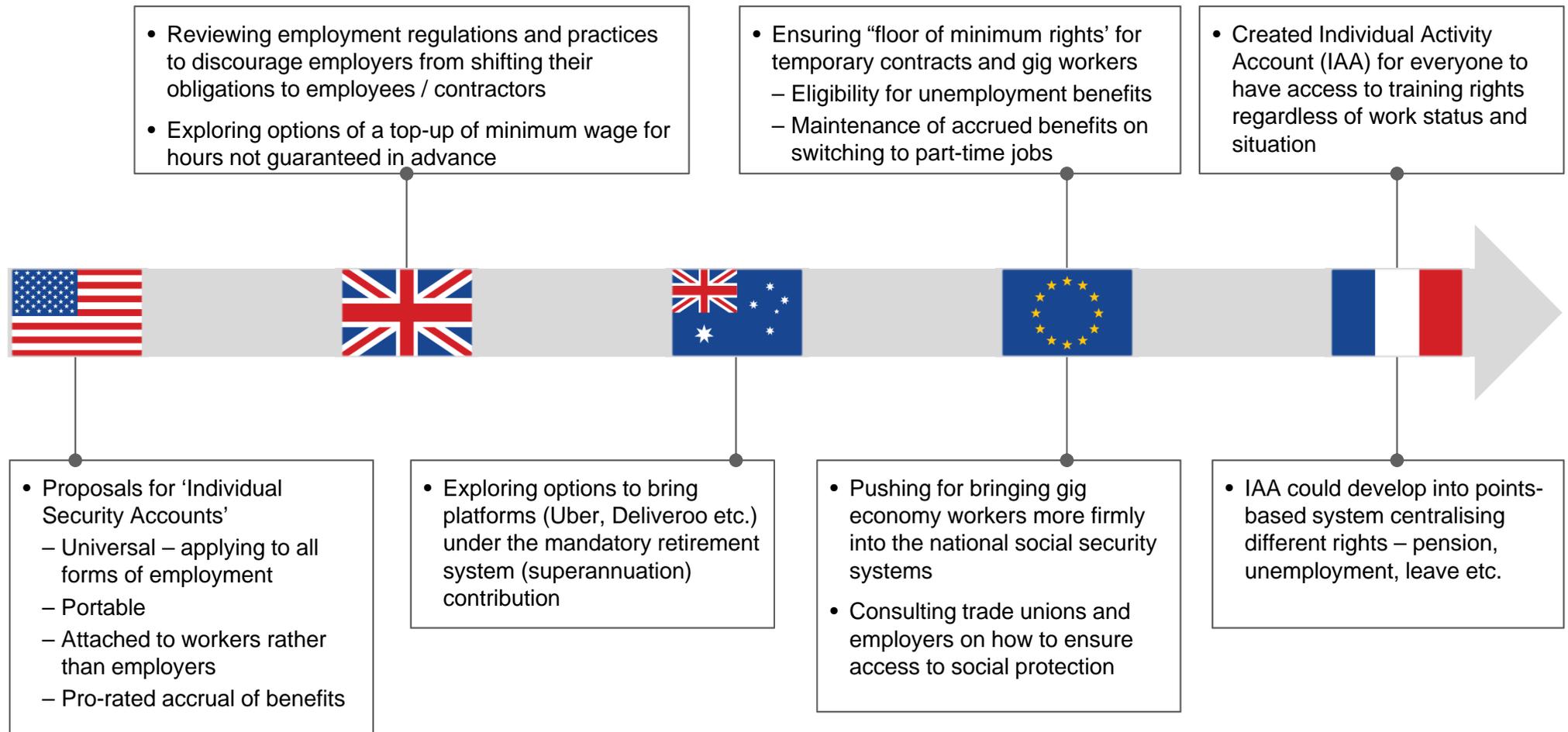
AVERAGE PRIVATE MEDICAL INSURANCE PREMIUMS
2015-2030, US\$



Source: Social Aging's Threat to Healthcare Insurance, Asia Pacific Risk Center, Marsh McLennan Companies

Countries are grappling with the challenges posed by the gig economy and actively exploring for solutions

Workers' Rights

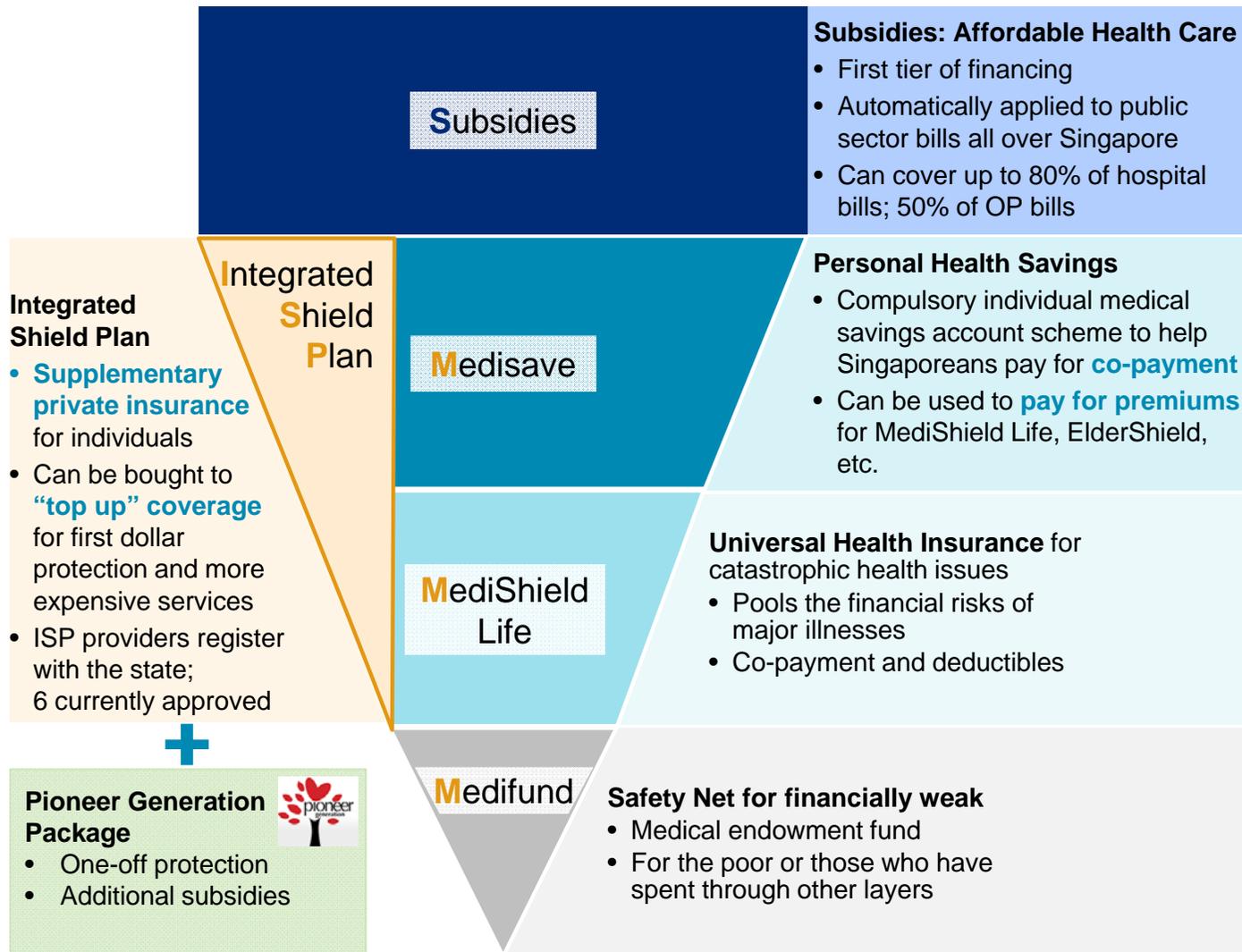


Social Protection

← Various form of minimum income schemes for retirement in place →

In the Singapore setting, health protection is tightly coupled by design to retirement adequacy

Singapore Healthcare Funding Systems: “S+3Ms”



- Should health protection be linked to retirement adequacy?
- If yes, how to manage the shortfalls which will worsen over time due to the 2 exacerbating trends:
 - More gig workers
 - Rising healthcare costs

What can Singapore do for better social and health protection in the future “gig economy”

Government

- Financial subsidies (e.g. “Pioneer package”)
- Employee segmentation (e.g. treat “Gig” platforms as employers)
- Policy enforcement (e.g. mandatory private insurance)?
- Cost management for healthcare system
- ...

“Gig” employees

- Private individual insurance and riders
- Voluntary CPF savings
- Alternative saving/investment plans
- Improve for health and wellness
- ...

Employers/ “Gig” Platforms

- Fair protection benefits for employees (e.g. providing group healthcare insurance)
- Clear definition of employees vs. freelancers
- Employee health management programs
- ...

Insurance companies

- Cost control measures (e.g. panels and analytics) to bend healthcare costs
- Apply managed care techniques (e.g. benefit design) to cater for consumer’s needs
- ...



The gig economy is a reality – Singapore needs to be proactive in reforming its CPF and social protection framework to include the gig economy workers as well



“ I am not yet a fan of the gig economy. I don't think that's a great social model. So we've got to watch this carefully. We've got to avoid a continuing drift - of risk being passed from companies to workers, who actually can't take much risk - the risk of instability in wages and the risk of not being prepared for retirement because of a lack of social security contributions”

Tharman Shanmugaratnam
Deputy Prime Minister

“ We can expect the gig economy to keep growing. There is a potential upside, there is a potential downside too... We will continue to monitor the developments, and together with our tripartite partners, we will find practical solutions to address issues faced by the freelancers

Mr. Lim Swee Say
Minister for Manpower



Sources: DPM's Dialogue at McKinsey Innovation Forum 2016; Minister of Manpower's speech in COS Debate 2017

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