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the Administration)

Subcommittee to Study the Subject of Combating Poverty

Minutes of meeting
held on Thursday, 21 July 2005 at 4:30 pm
in Conference Room A of the Legislative Council Building

Members present : Hon Frederick FUNG Kin-kee, JP (Chairman)
Hon James TIEN Pei-chun, GBS, JP (Deputy Chairman)
Hon Albert HO Chun-yan
Hon LEE Cheuk-yan
Hon Fred LI Wah-ming, JP
Hon Margaret NG
Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP
Hon CHAN Yuen-han, JP
Hon LEUNG Yiu-chung
Hon Andrew CHENG Kar-foo
Hon TAM Yiu-chung, GBS, JP
Hon Abraham SHEK Lai-him, JP
Hon LI Fung-ying, BBS, JP
Dr Hon Fernando CHEUNG Chiu-hung
Hon Ronny TONG Ka-wah, SC
Hon Albert Jinghan CHENG

Members absent : Hon LAU Chin-shek, JP
Hon Emily LAU Wai-hing, JP
Hon WONG Kwok-hing, MH
Hon Alan LEONG Kah-kit, SC
Hon LEUNG Kwok-hung
Hon KWONG Chi-kin

Public officers attending : Mrs Cherry TSE, JP
Secretary to Commission on Poverty

Mrs FUNG Yue Mui-fun, Brenda
Principal Assistant Secretary (Elderly Services and
Social Security)²
Health, Welfare and Food Bureau

Mr CHEUNG Kin-chung, Matthew, JP
Permanent Secretary for Economic Development and Labour
(Labour)

Mr NG Kwok-keung, Bryon
Senior Labour Officer (Employment Services)
Labour Department

Mr Darren McShane
Executive Director (Regulation and Policy)
Mandatory Provident Fund Schemes Authority

Ms Gabriella YEE
Senior Manager (Policy and Development)
Mandatory Provident Fund Schemes Authority

Attendance by invitation : Joint Alliance for Universal Retirement Protection (JAURP)

Dr WONG Hung
Convenor, JAURP
Assistant Professor
Department of Social Work
The Chinese University of Hong Kong

Mr CHUA Hoi-wai
Vice-Convenor, JAURP
Business Director
Hong Kong Council of Social Service

Professor Bida CHAN
Associate Professor
Statistics and Actuarial Science
The University of Hong Kong

**Clerk in attendance : Mrs Constance LI
Chief Council Secretary (2)⁵**

Staff in attendance : Mr Watson CHAN
Head, Research and Library Services

Mr Simon LI
Research Officer 6

Miss Betty MA
Senior Council Secretary (2)1

Ms Anna CHEUNG
Legislative Assistant (2)5

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I. Date of next meeting and items for discussion

The Chairman said that at the internal meeting of the Subcommittee held on 12 July 2005, members agreed that the Subcommittee would start its discussion on specific selected topics in the next session, i.e. the subjects of “working poverty” and “women in poverty”, with a view to making some recommendations on these topics. The Chairman further said that the Secretariat would make reference to relevant issues or suggestions raised by Members on these subjects at previous Legislative Council (LegCo) committee meetings, and draw up draft recommendations for the Subcommittee’s discussion.

2. The Chairman added that the Subcommittee would hold the next meeting in October 2005 to discuss the topic of “working poverty”.

II. Social security system for retirement protection

[LC Paper Nos. RP09/04-05, RP06/04-05, CB(2) 1132/04-05(02), CB(2) 2203/04-05, CB(2) 2297/04-05(01) and FS18/04-05]

3. The Chairman said that the three issues listed under this item were related. He would first invite the Research and Library Services Division (RLSD) of LegCo Secretariat to present the research report on “Social security system for retirement protection in selected places”, to be followed by the presentation by the Joint Alliance for Universal Retirement Protection (JAURP) on its proposals for retirement protection for Hong Kong. He would then invite representatives of the Mandatory Provident Fund Authority (MFPA) to give an account of the implementation of the Mandatory Provident Fund (MPF) Schemes.

4. Head, RLSD gave a powerpoint presentation on the research report on the social security systems for retirement protection in Canada, Japan and Singapore. The Chairman added that a comparison of systems in these places was given in Table 9 of the research report for members’ easy reference.

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(Post-meeting note : The powerpoint presentation materials were circulated to members vide LC Paper No. CB(2) 2364/04-05(01) dated 22 July 2005.)

5. Dr WONG Hung and Mr CHUA Hoi-wai of JAURP presented JAURP's proposals for a contributory retirement protection plan in Hong Kong. The contribution rates and monthly pay-outs under the two options (i.e. a monthly old-age pension payment of \$2,500 or \$3,000) were detailed in JAURP's submission (LC Paper No. CB(2) 2297/04-05(01)). Dr WONG said that JAURP comprised over 50 non-government organizations (NGOs), and its mission was to urge the Government to establish a retirement protection scheme for all elderly in Hong Kong as early as possible. The scheme aimed to achieve the following objectives –

- (a) to enable all elderly in Hong Kong to maintain a basic standard of living;
- (b) to reduce elderly poverty; and
- (c) to address the problem of financial burden on the community brought about by the ageing population.

6. Dr WONG explained that the proposed scheme was different from the other retirement protection schemes in that –

- (a) it would be partially pre-funded and included a government contribution component (the government funds were currently used for Comprehensive Social Security Allowance (CSSA) and Old Age Allowance (OAA) payments); and
- (b) the proposed scheme would have greater sustainability as more funds could be accumulated when there was a greater proportion of young population.

Dr WONG added that JAURP planned to submit its formal proposal for LegCo discussion in the next session.

(Post-meeting note : The presentation materials were circulated to members vide LC Paper No. CB(2) 2364/04-05(02) dated 22 July 2005.)

7. The Chairman referred members to the fact sheet prepared by RLSD of LegCo Secretariat on "Historical development of retirement schemes in Hong Kong". The Chairman then invited representatives of MPFA to brief members on the current position of the operation of MPF Schemes.

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8. Executive Director (Regulation and Policy) of MPFA (ED/MPFA) said that the compliance rates of MPF Schemes were good when compared with overseas countries. As at 31 March 2005, the enrolment rates of employers, employees and self-employed persons were 97.9%, 96.7% and 80.8% respectively. As for MPF contributions, ED/MPFA advised that the contribution pattern was consistently stable which was around \$2 billion a month. As at 31 March 2005, the balance was \$124 billion. The asset allocation was approximately 54% equities, 26% debt securities and the remaining deposits and cash. ED/MPFA further said that as the MPF Schemes had been in full operation for only five years, the amount withdrawn in 2001-04 was comparatively small. For instance, the amount withdrawn on the ground of retirement, permanent departure, death and incapacity was \$950 million, \$790 million, \$110 million and \$50 million respectively.

Research report on social security system for retirement protection in selected places

9. Ms LI Fung-ying noted from RLSD's research report that the Japanese government had put in place the National Pension Scheme and Employees' Pension Insurance Scheme for retirement protection. Ms LI requested RLSD to provide the following information –

- (a) whether a flat rate for contribution was applied to self-employed and non-employed persons such as housewives under the National Pension Scheme, and how the rate(s) were determined; and
- (b) whether the contribution of a self-employed person under the National Pension Scheme would be transferred to the Employees' Pension Insurance Scheme if that person subsequently took up employment, and whether there was any overlapping between the two schemes.

10. H/RLSD advised that the contribution rate for the National Pension Scheme was a flat rate. Research Officer 6 (RO6) explained that the National Pension Scheme was a universal pension scheme available to all people aged between 20 and 59 in Japan. When a self-employed person took up employment, he would start to make contribution to the Employees' Pension Insurance Scheme which would include his share of contribution under the National Pension Scheme. RO6 undertook to provide further information on the criteria for determining the contribution rates after the meeting.

RLSD

Withdrawal from the MPF Schemes

11. Mr LEE Cheuk-yan expressed concern that certain amounts relating to severance payments and long service payments could be paid from the accrued benefits of MPF Schemes. To his knowledge, the amount involved represented about one-fourth of the accrued benefits. He asked about the total amount of such payments. Mr LEE held the view that MPFA should review whether such arrangement would defeat the purpose of setting up the MPF Schemes. Dr Fernando CHEUNG shared a similar view with Mr LEE.

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12. ED/MPFA said that in 2004, the amount of severance payments and long service payments paid from the accrued benefits under MPF Schemes was about \$900 million. On the suggestion of a review of the arrangement, ED/MPFA said that as it involved policy considerations, it would be for the Economic Development and Labour Bureau and the Financial Services and Treasury Bureau to consider. To his understanding, the arrangement was a compromise made between parties concerned when the MPF legislation was enacted.

13. Permanent Secretary for Economic Development and Labour noted that it was a compromise made by the parties concerned that employers were allowed to offset the long service payments or severance payments by the accrued benefits derived from the contribution which they had made to the employees in the MPF Schemes. The MPF legislation got through LegCo on the basis of this understanding. He added that to reverse the offsetting arrangement now would be a highly complicated matter and would have far-reaching implications on employers. His initial observation was that it would mean that employers would have to set aside additional funds for long service payments or severance payments. The issue would therefore need to be studied very carefully.

14. Mr LEE Cheuk-yan urged the Administration to review the offsetting arrangement as early as possible.

Universal retirement protection

15. Mr LEE Cheuk-yan said that given the ageing profile of the population, it was regrettable that the Administration had still not come up with a comprehensive retirement protection plan for Hong Kong. Mr LEE asked whether the research on financial security in old age now undertaken by the Central Policy Unit (CPU) would address the problem.

16. Principal Assistant Secretary for Health, Welfare and Food (Elderly Services and Social Security)² (PAS(ES&SS)) advised that the Hong Kong model of providing financial security to the elderly drew reference from the three-pillar approach on retirement protection advocated by the World Bank : mandatory savings on a contributory basis for the working population; a social safety net for the needy elders; and voluntary private savings. To her knowledge, an Expert Panel on Financial Security in Old Age was formed by CPU to assess the financial sustainability of the three pillars of retirement protection in the next 30 years. She believed that the scope of the research study would be wide ranging.

17. Mr LEE Cheuk-yan noted that the proposals presented by JAURP would provide universal financial security to the elderly under which the Government would be able to achieve savings amounted to \$80 billion in 30 years' time. He asked whether the Administration would positively consider the proposals. He also asked JAURP which party would have to pay the most under the proposal.

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18. Dr WONG Hung of JAURP responded that according to JAURP's proposal, all the contributors would not have to pay more than that currently required under the MPF Schemes. Under Option A (i.e. a monthly old-age pension of \$2,500), no party would have extra costs although it was envisaged that those who were young, single and with high-income would have the least overall benefit. However, the majority of the population, especially those who had to support their parents' living, would benefit from either Option A or Option B (i.e. a monthly old-age pension of \$3,000). The whole community would benefit by way of inter-generational redistribution of wealth. Dr WONG further said that under Option B, the monthly payment of \$3,000 was higher than the prevailing OAA. Under this option, there would be a slight increase in the profit tax for the business sector.

19. Dr Fernando CHEUNG declared that he was a member of JAURP. Dr CHEUNG said that MPF Schemes could not benefit the current generation of needy elders and people who had not participated in the Schemes. The MPF Schemes were also unable to provide adequate retirement protection to low-income earners and non-employed persons such as housewives. Dr CHEUNG further said that as World Bank's three-pillar approach on retirement protection was the existing policy of the Government, there was no need to further assess the financial sustainability of this approach. Given that the social security payments for the elderly would increase significantly in 30 years, the Administration should seriously study JAURP's proposals and provide a response. In his view, the proposals were not merely a conceptual theory, but were practical and financially viable in the next 50 years, as supported by actuarial analysis.

20. PAS(ES&SS) reiterated that to her knowledge, the Expert Panel formed by CPU would also use projections to study the financial sustainability of the three pillars of retirement protection in the coming 30 years. However, as retirement protection exceeded the purview of the Health, Welfare and Food Bureau (HWFB), other relevant bureaux and departments would also provide input to the Expert Panel.

21. Mr Albert HO said that it would be irresponsible for the Administration not to address the ageing problem immediately, as the current generation of younger persons would have to shoulder substantial costs for social security payments to the needy elders in the next few decades. Mr HO urged that the Administration should seriously consider JAURP's proposals.

22. Referring to JAURP's proposals, Mr Albert HO asked whether the \$3,000 monthly pension under Option B could also cater for the elders' needs for healthcare service other than their basic needs. If this was not the case, Mr HO asked whether JAURP would revise and expand its proposal to cover healthcare spending, e.g. the high-income earners could be asked to pay more for better retirement protection in future by raising the maximum level of income for contribution. Mr HO said that this would also help achieve wealth redistribution.

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23. Mr CHUA Hoi-wai of JAURP responded that in the absence of available statistics on the healthcare costs for the elderly who required intensive care, the proposed retirement protection did not cover healthcare spending for the frail elders. However, the proposed retirement protection would provide financial security for the elderly to meet their basic needs, and also allow them to consult private medical doctors on four to six occasions annually. Dr WONG Hung added that JAURP had considered raising the maximum level of income for contribution to \$40,000. However, respondents from the middle class were hesitant about increasing their contribution. JAURP therefore made an alternative suggestion to increase profit tax under Option B, which would mean a larger scale of wealth redistribution.

24. Ms LI Fung-ying said that according to JAURP, the proposals were financially sound and sustainable in 50 years' time. Ms LI asked what assumptions JAURP had adopted in respect of the economic situation and inflation rate of Hong Kong, as well as changes in the working population and their income levels in the next few decades, when formulating the proposals.

25. Professor Beda CHAN of the University of Hong Kong explained that the population projection was based on the statistics published by the Census and Statistics Department in 2004, which had made conservative projections on the number of elders and working population. Having regard to the recent trend of low inflation rate, and that the interest rate of 30-year US bonds stood at about 4%, a real return of 2.1% was assumed in the projection.

26. Mr CHUA Hoi-wai added that the projection had assumed an annual increase of 2.1% in wage level. Mr CHUA said that if the wage level increased by 2.7% each year, it was estimated that the Government's reserve would increase to about \$600 billion after 50 years, instead of \$70 billion as shown in the submission. However, if there was an increase of only 1.5% in wage level due to economic downturn, there would be a deficit of about \$200 billion after 50 years. Nevertheless, there would not be any problem in the first 30 years under this scenario, and the deficit would occur only after 30 years. The Administration therefore still had sufficient time to take remedial measures to tackle the problem, e.g. by deferring the age eligible for receiving old-age pension.

27. Miss CHAN Yuen-han said that the Hong Kong Federation of Trade Unions had been studying retirement protection schemes for Hong Kong since 1980s. Miss CHAN expressed appreciation of the efforts made by JAURP in coming up with proposals on retirement protection. She agreed with Mr CHUA Hoi-wai that remedial actions could be taken if there were circumstantial changes, such as changes in wage level, after implementation of the retirement protection scheme.

28. Miss CHAN further said that as a result of the economic downturn in the past few years, there were about 500 000 low-income earners whose monthly income were below \$5,000. The MPF Schemes and OAA could not provide adequate financial security for these low-income workers upon retirement. Miss CHAN pointed out

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that the elder CSSA recipients currently represented 60% of the total CSSA recipients, and it would be a burden on the community with the increase in the ageing population. She said that it was Government's responsibility to study retirement protection for the low-income workers, or else they would have to rely on social security assistance after retirement. While acknowledging that the subject of retirement protection involved policy considerations other than welfare, Miss CHAN urged PAS(ES&SS) to reflect to the Administration that it must address the problem. Miss CHAN urged that representatives from HWFB and Financial Services and the Treasury Bureau should attend the next meeting of the Subcommittee and give a response to JAURP's proposals.

29. PAS(ES&SS) said that the Administration was mindful of the ageing population and the need to provide retirement protection for those who lacked financial support. It was against this background that CPU developed a research agenda on financial security in old age. The Expert Panel engaged by CPU was expected to come up with initial findings in early 2006. PAS(ES&SS) pointed out that JAURP had under-estimated Government's expenditure on CSSA and OAA, which now reached \$11.7 billion, and not \$8 billion as cited by JAURP in its proposals.

30. Dr WONG Hung clarified that the 2003 figures were used in JAURP's proposals, which also excluded expenditure on CSSA and OAA for elders aged below 65 and the special grants for meeting special needs of CSSA recipients.

31. Miss CHAN Yuen-han commented that JAURP's proposals were different from the MPF Schemes in that the contributions under the proposed retirement protection scheme would be pooled together for providing financial security for all elderly, while contributors under the MPF Schemes maintained their individual accounts. She asked whether JAURP had considered how its proposed system would operate.

32. Dr WONG Hung explained that JAURP's proposal introduced the concept of providing financial security for the elderly by their next generation on a collective basis. As the proposed retirement protection would also cover the parents of the contributors, respondents from the middle class had found the proposal acceptable.

33. Mr LEUNG Yiu-chung said that apart from the provision of cash subsidy to the elderly, other forms of welfare assistance such as provision of residential care homes for the elderly and healthcare service should also be available to the needy elders. He was surprised to learn that there was no dedicated bureau to coordinate policies on financial security and welfare services for the elderly, and that the matter had to be studied by CPU. In his view, HWFB should assume the overall policy responsibility for the elderly. Mr LEUNG asked about the reasons for assigning CPU to conduct studies on the subject of financial security in old age, and whether any bureau or department would follow up the study findings or recommendations.

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34. PAS(ES&SS) said that as she had pointed out earlier, retirement protection was not only a welfare issue, and it involved other considerations such as changing profiles of working force and individual plans for retirement. In this respect, the Expert Panel formed under CPU was to find out how the existing arrangements for retirement protection modelled on the World Bank's three pillar approach could be made more sustainable. HWFB would also provide input to the study. The findings of CPU would be considered by the respective bureaux and departments.

35. Mr LEUNG Yiu-chung expressed concern about the fragmented approach adopted by the Administration in dealing with retirement protection, as no dedicated bureau was assigned to follow up CPU's findings and recommendations in this respect.

36. The Chairman remarked that CPU was responsible to the Chief Executive (CE). However, he would like to know who proposed that CPU should undertake the study and to whom the report would be submitted. The Chairman further said that he would also like to know whether the Commission on Poverty (CoP) or any bureau would be responsible for following up CPU's findings and recommendations, so that the Subcommittee could continue its discussion with CoP on the matter.

37. Secretary to CoP (Secy/CoP) said that she was not aware of the background to the research studies being conducted by the Expert Group under CPU, as the studies had commenced before she took up her present post. Secy/CoP advised that based on her experience in the preparatory work for the establishment of MPFA, it was Government's established practice to engage a high-level committee to conduct in-depth study of a subject which was of wide public interest, before formulating policy initiatives on the subject. There might also be a review of the delineation of policy responsibilities among the relevant bureaux and departments in the light of the deliberation of the high-level committee. On the question of whether CoP would follow up CPU's recommendations and findings, Secy/CoP said that the Secretariat of CoP would carry out its work in accordance with the work priorities as agreed by CoP.

38. Secy/CoP added that while she appreciated the efforts made by JAURP in putting forward the proposals on retirement protection, the Administration would need time to consider the proposals and study the underlying assumptions, e.g. the levels of investment returns and wage increase, and the proportion between working and non-working population, etc.

39. Mr LEE Cheuk-yan said that he was worried that the CPU's studies would not cover the issue of universal retirement protection, and would not make recommendations in this respect, since the focus of the studies was to assess the fiscal sustainability of the three-pillar approach. Mr LEE considered that CPU should be requested to provide the terms of reference of its research studies to the Subcommittee.

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40. PAS(ES&SS) advised that the purpose of CPU's research studies was outlined in the Administration's paper to the Panel on Welfare Service for its meeting on 13 June 2005. She said that some research topics such as studies to look into the financial disposition of the current and future generations of the elderly and their retirement plans were developed by CPU.

41. Mr LEE Chuek-yan stressed that the CPU studies should aim at providing some concrete proposals on universal retirement protection, so as to ensure that the elderly could obtain adequate financial security and lead a dignified life after retirement.

42. Dr Fernando CHEUNG said that issues relating to the ageing population had been discussed for some 20 years, but little progress had been made except the implementation of the MPF Schemes. Dr CHEUNG expressed concern that the Administration would simply put aside JAURP's proposals and provide no response at all. In view of the aggravated problem of the ageing population, he considered that the Subcommittee should press the Administration to provide a response to JAURP's proposals. Dr CHEUNG further said that the Administration should also make clear which bureau(x) would assume responsibility for the coordination of policies on universal retirement protection.

43. Dr WONG Hung said that according to CPU's tender documents for the research studies, the studies were to assess the existing system for retirement protection, i.e. the financial sustainability of the three pillars of retirement protection, and there was no requirement for making recommendations. Dr WONG further said that it was not certain whether CPU would make public its findings. Dr WONG considered that the Subcommittee should urge the Administration to take action to address the problem of ageing population. He added that NGOs were more than happy to cooperate with the Administration in this respect.

44. The Chairman said that to facilitate the Subcommittee to follow up discussion on CPU's research studies, the Subcommittee should write to CE and request for information on the background to CPU's studies, the objectives and scope of such studies, to whom the research reports would be submitted, whether the report findings would be publicized, and which bureau would be responsible for following up CPU's findings and recommendations. Members agreed.

45. Dr Fernando CHEUNG said that the Subcommittee should also request the Administration to provide a response to JAURP's proposals. The Chairman said that it was appropriate for the Subcommittee to do so only when the Subcommittee had taken a position on JAURP's proposals. In the meantime, JAURP might wish to discuss with the Administration. PAS(ES&SS) said that she would convey JAURP's proposals to CPU for consideration.

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46. Dr Fernando CHEUNG said that as the Expert Panel was expected to come up with initial findings in early 2006, he hoped that the Subcommittee would discuss CPU's findings when they were available, and invite JAURP to the meeting.

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47. The Chairman said that as the Subcommittee had earlier agreed to start work on the subjects of “working poverty” and “women in poverty” in the next session, it might consider following up the discussion on retirement protection after completing its work on the two selected topics.

III. Any other business

48. There being no other business, the meeting ended at 6:40 pm.

Council Business Division 2
Legislative Council Secretariat
7 September 2005