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Panel on Welfare Services meeting on 13 June 2005

Background paper prepared by Legislative Council Secretariat

Social Security for Needy Elderly in Hong Kong

Purpose

This paper gives an account of the past discussions by the Panel on Welfare Services (the Panel) on social security for needy elderly in Hong Kong.

Introduction

2. Needy elders in Hong Kong are assisted by the Comprehensive Social Security Assistance (CSSA) Scheme and, to some extent, by the Old Age Allowance (OAA) under the Social Security Assistance (SSA) Scheme. The objective of the CSSA Scheme, which was set up in 1993, is to bring the income of elders, among others, up to a prescribed level to meet their basic and essential needs. The objectives of OAA, which was established in the 1970s, are first, to provide some financial assistance to families to help relieve the caring for their older family members; second, to reduce the demand for institutional care by encouraging families to care for their older members; and third, to enable older persons to contribute to the family budget. An elderly person can receive either CSSA or OAA or other allowances under the SSA Scheme at any one time. The eligibility and rates of payment for CSSA and OAA are in the **Appendix**.

Major views/concerns raised by the Panel and the Administration's response

CSSA standard rates

3. Despite opposition from most members of the Panel, the standard rates for non able-bodied recipients, including the elderly, was adjusted downwards

by 11.1% in two phases over two years effective from October 2003. For details on the recent adjustment of standard rates under the CSSA Scheme, members may wish to refer to the background brief (LC Paper No. CB(2) 145/04-05(04)) prepared by the LegCo Secretariat for the Panel meeting on 8 November 2004.

4. As Hong Kong had entered an inflation period, members asked the Administration on 8 November 2004 whether it would adjust the standard rates upwards.

5. The Administration replied that although Hong Kong had entered an inflation period, the Social Security Assistance Index of Prices (SSAIP) still registered a negative change. The Administration assured members that action would swiftly be taken to adjust the CSSA standard payment rates upwards if the SSAIP demonstrated a very clear upward trend.

6. The Administration also pointed out that although a review of the CSSA payment rates was normally made annually based on the actual price movements in the previous year, such a review would now be made more frequently, say, every six months, to ensure that the CSSA Scheme could provide an effective safety net to people in financial difficulties.

Providing more financial assistance to OAA recipients

7. At the meeting on 9 July 2001, a member asked whether consideration could be given to increasing the OAA in order to better assist those OAA recipients who were in greater financial hardship. Another member considered that where possible, OAA should be paid to all elders regardless of their means.

8. The Administration replied that it had not yet come to a decision on how to provide additional financial support to those OAA recipients in greater financial hardship, including whether the applications for additional assistance would be means-tested. Putting in place some form of financial test to identify the target group of older persons was however considered necessary, having regard to the fact that there were at present over one million older persons in Hong Kong. As some older persons might find means testing complicated, and, this in turn might discourage some of them from applying for additional assistance, consideration would be given to introducing a simpler arrangement to determine whether they were in need of additional financial support. As to paying elders OAA without the need for them to undergo means testing, the Administration pointed out that to do so would create a heavy financial burden on the public coffer and the money would be spread too thin.

9. The question of whether the Administration intended to reduce or

increase OAA was raised at the meeting of the Panel on 9 December 2002. The Administration replied that no change would be made to the OAA for the time being, as the Administration was still reviewing the existing social security schemes for the elderly with a view to developing a sustainable financial support system which could better target resources at those older persons most in need. Legislative Council (LegCo) Members would be consulted if and when there were proposals to introduce major changes to the financial support system for the elderly. While the CSSA/SSA rates would remain frozen until end March 2003 pending a review of the rates, the Administration had no intention to adjust OAA downwards, despite the fact that there had been an over-adjustment of OAA due to the combined effect of the upward adjustment up to 1998-99 based on forecast price increases and the continued deflation since then.

Extending the “absence limit” of OAA

10. At the meeting of 20 April 2005, members urged the Administration to further relax the permissible limit of absence from Hong Kong for OAA from 240 days to 360 days in a year, in order to obviate the need for the recipients to return to Hong Kong to continue to receive the allowance.

11. The Administration pointed out that unlike the CSSA Scheme which was means-tested and provided for those in financial needs, OAA was largely non-means tested and benefitted more than the financial needy. The number of elderly on OAA was a lot more than that on CSSA (457 000 compared to 180 000). Furthermore, unlike the Portable CSSA Scheme for elderly CSSA recipients which was confined to Guangdong and the newly added Fujian Province, the whereabouts of OAA recipients could be widely dispersed, both in the Mainland and in overseas countries, subject to their fulfilling the 90-day residence requirement. If the restriction on absence limit for OAA was lifted altogether, it would be virtually impossible to put in place an administrative arrangement in the Mainland, or for that matter, in overseas countries, to review the continuous eligibility of recipients. If OAA were to be made fully portable, it was also possible that many elderly residents who were not claiming OAA might apply for OAA, bringing further additional financial implications to the SSA Scheme.

12. Taking into account the above considerations, the Administration considered that while it recognised the wishes of some elderly to spend more time with family/friends outside Hong Kong, it was necessary on the other hand to prudently manage the use of public funds for a non-means tested and non-contributory scheme. On balance, relaxing the permissible annual absence limit for OAA from the present 180 days to 240 days per year, subject to the continual requirement that recipients had to have resided in Hong Kong for at least 90 days in the year, was considered an acceptable compromise.

13. In response to members' request to review the absence limit for OAA one year after the implementation of the new 240-day absence limit, the Administration advised that it would closely monitor the new arrangement and consider adjustment as appropriate.

Setting up an Old Age Pension Scheme

14. At the meetings on 9 July 2001 and again on 9 December 2002, a number of members urged the Administration to re-consider the setting up of a contributory pay-as-you-go Old Age Pension Age Scheme (OPS) to ensure that older persons could lead a dignified life in their retirement years. They pointed out that the recently implemented Mandatory Provident Fund (MPF) Scheme could not benefit the current cohort of older persons, and did not cover people not participating in the workforce, such as housewives. For those of low income, the benefits of MPF were limited even in the longer term.

15. The Administration considered it highly doubtful whether the public would support the implementation of an OPS, given that both employers and employees now had to make contributions to the MPF Scheme. If the OPS was funded by public revenue, it was also questionable whether such a Scheme could be sustained in the long run, as seen from some overseas experience, because of the ageing population, lower fertility rates and increasing life expectancy.

16. The Administration pointed out that during the discussion in the mid-1990s over the possibility of setting up an OPS, while some members of the public gave support to the proposal, others considered it unfair because of a lack of relationship between benefits and contributions. Some also claimed that the OPS would shift the burden of old age protection from individual/family to society. There was also concern that the OPS did not target assistance at those in need, and there was a question of inter-generational equity. Against the aforesaid background and given that the MPF Scheme was intended to be one of the two mandatory pillars recommended by the World Bank, and had only been implemented for a short period of time, the Administration considered that the priority in the next few years should be placed on developing the second of the mandatory pillars, i.e. a sustainable safety net for needy elders. The Administration further pointed out that although the World Bank's three-pillar model was used as a framework for providing financial protection to elders in Hong Kong, it would continue to adopt an open mind on any viable options which could be sustainable in the long run.

17. The three-pillar approach for old age protection recommended by the World Bank is as follows -

- (a) first pillar of a compulsory public plan for poverty alleviation and

prevention: this pillar provides basic protection to the older population. It can take the form of a universal flat-rate scheme, means-tested benefits, or minimum income guarantee. In Hong Kong, the CSSA and, to some extent, the OAA serve this purpose;

- (b) second pillar of a privately managed compulsory pension plan for income maintenance: this is a wage-related scheme managed by the private sector for retirement savings. Contributions are defined and accumulated in individual accounts with investment returns. The MPF Scheme belongs to this kind of arrangement; and
- (c) third pillar of a voluntary savings-annuity plan to supplement the two above: it involves investments in the financial products offered by the market and is meant to provide supplementary sources of retirement income. The target of this pillar is the higher income group who may wish to enjoy a higher standard of living after retirement.

18. The Administration advised the Panel on 20 April 2005 that a study was being carried out by the Central Policy Unit (CPU) to find out how the existing arrangements for retirement protection, including mandatory savings for the working population, social security assistance for needy elders, and personal savings, under the three-pillar approach developed by the World Bank could be more sustainable in light of the ageing population. Based on the findings of the CPU which were expected to become available by early 2006, the Administration would consider developing policies aiming at providing adequate financial support for older persons.

Relevant papers

19. Members are invited to access the LegCo website (<http://www.legco.gov.hk>) to view the following -

- (a) minutes of meetings of the Panel held on 9 July 2001, 9 December 2002 and 20 April 2005 and relevant papers provided by the Administration;
- (b) background brief (LC Paper No. CB(2) 145/04-05(04)) prepared by the LegCo Secretariat referred to in paragraph 3 above;
- (c) relevant motions moved by Dr Hon YEUNG Sum at the Council meeting on 7 November 2001, Mr WONG Sing-chi at the Council meeting on 26 February 2003, Hon CHAN Kam-lam at

the Council meeting on 22 October 2003 and Dr Hon Fernando CHEUNG at the Council meeting on 24 November 2004, and

- (d) relevant questions asked by Mr WONG Sing-chi at the Council meeting on 8 May 2002, Dr Hon YEUNG Sum at the Council meeting on 5 June 2002 and Dr Hon Fernando CHEUNG at the Council meeting on 27 October 2004.

Council Business Division 2
Legislative Council Secretariat
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Social security system

Eligibility

To be eligible for elderly Compensative Social Security Assistance (CSSA), a person must satisfy the following requirements -

- (a) be aged 60 or above;
- (b) be a Hong Kong resident for at least one year if he/she has become Hong Kong resident before 1 January 2004, or at least seven years if he/she has become Hong Kong resident after 1 January 2004;
- (c) have resided in Hong Kong continuously for at least one year immediately before the date of application (absence from Hong Kong up to a maximum of 56 days during the one-year period is treated as residence in Hong Kong); and
- (d) have passed both the income and means test. If the applicant is living with any other family members, the application has to be made on a household basis. The total income and assets of all family members in the same household are taken into account in determining the family's eligibility for assistance.

2. To enable elderly CSSA recipients to spend more time with their family members living outside Hong Kong, these recipients are allowed to be absent from Hong Kong for up to 180 days in a payment year (which is counted from 1 July to 30 June of the following year) without affecting their amount of assistance payable.

3. An option is also provided for elderly people who have been in receipt of CSSA continuously for no less than three years to continue to receive CSSA should they choose to take up permanent residence in Guangdong Province under the Portable CSSA (PCSSA) Scheme, subject to the recipients having resided in Hong Kong for at least 90 days in the year. An eligible applicant for PCSSA is entitled to the monthly standard rate and the annual long-term supplement. No special grants or other payments, such as rent allowance, special diet allowance, travelling expenses, will be made to a PCSSA recipient. On 6 May 2005, the Legislative Council (LegCo) Finance Committee (FC) approved the proposal of extending the PCSSA Scheme to Fujian Province and allowing those who have received CSSA for no less than one year to join the

Scheme for implementation by August 2005.

4. There are two types of Old Age Allowance (OAA) under the Social Security Assistance Scheme, namely, Normal OAA (NOAA) and Higher OAA (HOAA).

5. In order to be eligible for NOAA, a person must satisfy the following requirements -

- (a) be aged between 65 and 69;
- (b) be a Hong Kong resident for at least one year if he/she has become Hong Kong resident before 1 January 2004, or at least seven years if he/she has become Hong Kong resident after 1 January 2004;
- (c) have resided in Hong Kong continuously for at least one year immediately before the date of application (absence from Hong Kong up to a maximum of 56 days during the one-year period is treated as residence in Hong Kong); and
- (d) whose income and assets do not exceed the prescribed levels.

6. As regards the eligibility for HOAA, a person must satisfy the following requirements -

- (a) be aged 70 or above;
- (b) be a Hong Kong resident for at least one year if he/she has become Hong Kong resident before 1 January 2004, or at least seven years if he/she has become Hong Kong resident after 1 January 2004; and
- (c) have resided in Hong Kong continuously for at least one year immediately before the date of application (absence from Hong Kong up to a maximum of 56 days during the one-year period is treated as residence in Hong Kong).

7. Similar to the arrangement under the CSSA Scheme, a person in recipient of OAA is presently allowed to be absent from Hong Kong for up to 180 days in a payment year (which is counted from 1 July to 30 June of the following year) without affecting their amount of assistance payable, subject to the recipients having resided in Hong Kong for at least 90 days in the year. On 6 May 2005, FC approved the proposal of relaxing the annual permissible limit of absence from Hong Kong for OAA to 240 days for implementation by October 2005.

Payment

8. The existing monthly CSSA standard rates for the elderly are as follows -

	<u>Single person</u>	<u>Family member</u>
Able-bodied/50% disabled	\$2,270	\$2,140
100% disabled	\$2,750	\$2,430
Requiring constant attendance	\$3,870	\$3,545

9. The existing monthly NOAA and HOAA are \$625 and \$705 respectively.