For discussion **FCR(2005-06)36**
on 16 December 2005

ITEM FOR FINANCE COMMITTEE

HEAD 170 – SOCIAL WELFARE DEPARTMENT
Subhead 179 Comprehensive social security assistance scheme
Subhead 180 Social security allowance scheme

Members are invited –

(a) to approve revised rates of standard payments under the Comprehensive Social Security Assistance Scheme and the Disability Allowance under the Social Security Allowance Scheme with effect from 1 February 2006 to take account of inflation; and

(b) to note the financial implications of (a) above, estimated at $57 million in annually recurrent expenditure.

PROBLEM

We need to adjust the standard payments under the Comprehensive Social Security Assistance (CSSA) Scheme and the Disability Allowance (DA) under the Social Security Allowance (SSA) Scheme to take account of inflation.

PROPOSAL

2. We propose to increase, with effect from 1 February 2006, by 0.4% the standard payments under the CSSA Scheme and the DA under the SSA Scheme.

/3. .....

3. If Members approve the above proposals, the rates of standard payments under the CSSA Scheme and the DA under the SSA Scheme will be as follows –

A. CSSA Standard Rates

1. Standard rates for non able-bodied recipients and elderly persons aged 60 or above

Category	**Existing (per month) ($)**		**Proposed (per month) ($)**	
	Single person	**Family member**	**Single person**	**Family member**
(a) Elderly person aged 60 or above				
Able-bodied/50% disabled	2,270	2,140	**2,280**	**2,150**
100% disabled	2,750	2,430	**2,760**	**2,440**
Requiring constant attendance	3,870	3,545	**3,885**	**3,560**
(b) Ill-health/Disabled adult aged under 60				
Ill-health/50% disabled	1,920	1,745	**1,930**	**1,750**
100% disabled	2,400	2,075	**2,410**	**2,085**
Requiring constant attendance	3,515	3,190	**3,530**	**3,205**
(c) Disabled child				
50% disabled	2,560	2,230	**2,570**	**2,240**
100% disabled	3,040	2,715	**3,050**	**2,725**
Requiring constant attendance	4,150	3,835	**4,165**	**3,850**

2. Standard rates for able-bodied recipients

Category	Existing (per month) ($)	Proposed (per month) ($)
(a) Able-bodied adult aged under 60		
Single parent/Family carer		
– in a family comprising not more than two able-bodied adults/children	1,745	**1,750**
– in a family comprising three able-bodied adults/children	1,575	**1,580**
– in a family comprising four or more able-bodied adults/children	1,395	**1,400**
Others		
Single person	1,605	**1,610**
Family member		
– in a family comprising not more than two able-bodied adults/children	1,430	**1,435**
– in a family comprising three able-bodied adults/children	1,290	**1,295**
– in a family comprising four or more able-bodied adults/children	1,145	**1,150**
(b) Able-bodied child		
Single person	1,920	**1,930**
Family member		
– in a family comprising not more than two able-bodied adults/children	1,595	**1,600**
– in a family comprising three able-bodied adults/children	1,435	**1,440**
– in a family comprising four or more able-bodied adults/children	1,275	**1,280**

/B. .....

B. Supplements under CSSA Scheme

	Existing ($)	Proposed ($)
1. Annual long term supplement (for those who are old, disabled or medically certified to be in ill-health and who have received CSSA for 12 months or more)[1]		
Single person	1,425	**1,430**
Family comprising two to four such members	2,855	**2,865**
Family comprising five or more such members	3,825	**3,825**
2. Monthly single parent supplement	225	**225**
3. Monthly community living supplement	100	**100**

	Existing ($)	Proposed ($)
C. Meal allowance per month (for students attending full-day school and taking lunch away from home)	195	**195**

/D. .....

1 With regard to the Long Term Supplement (LTS), the 1996 Review of the CSSA Scheme revealed that the annualised expenditure on replacement of major durable items by larger families (i.e. those with five or more members) is much less than the corresponding annual LTS and is in effect not significantly different from that of families with two to four members. The Review concluded that we should freeze the rate for such larger households at the then newly revised 1996-97 level until it equated with that for families with two to four members. The LTS rate for families with five or more members was subsequently frozen in 1997-98, we therefore propose that the LTS rate for a family with five or more members should remain unchanged in this exercise.

D. Standard Payments under the SSA Scheme

Category	Existing ($)	Proposed ($)
Old Age Allowance		
Normal rate (for those aged between 65 and 69)	625	Rate to be frozen
Higher rate (for those aged 70 and above)	705	Rate to be frozen
Disability Allowance		
Normal rate	1,120	**1,125**
Higher rate (for those in need of constant attendance)	2,240	**2,250**

Based on the approved provision for 2005-06, the proposals may increase the CSSA expenditure from $18,578 million to $18,628 million and increase the DA expenditure from $1,684 million to $1,691 million.

JUSTIFICATION

Standard payments under the CSSA Scheme and the SSA Scheme

4. The provision of standard payment rates under the CSSA Scheme is to provide a safety net of last resort for those in need so that they could meet their basic and essential needs, whilst the provision of DA and Old Age Allowance (OAA) under the SSA Scheme aims to provide a monthly allowance to Hong Kong residents who are severely disabled or who are 65 years of age or above to facilitate families in caring for their disabled and old aged members. The CSSA Scheme is means-tested whilst applicants for the DA and OAA are largely not subject to any means test. An explanatory note is at Enclosure 1.

Encl. 1

5. The standard CSSA and SSA payment rates are adjusted according to the movement of the Social Security Assistance Index of Prices (SSAIP). The Index is specially compiled by the Census and Statistics Department on a monthly basis to measure inflation/deflation according to the expenditure pattern of CSSA households. It consists of the same items as the Consumer Price Index, except that items which are covered by special grants under the CSSA Scheme (for example, rent) are excluded. The movement of the index is used as a reference for making adjustments to CSSA/SSA standard payment rates to take account of price changes.

/6. .....

6. When compared with that for 2001-02, the 12-month moving average SSAIP up to 31 October 2005 registered an increase of 0.4%. In view of this increase, we propose a corresponding 0.4% upward adjustment to the CSSA rates and DA rates for the 2005-06 cycle.

7. No adjustment to OAA is proposed despite the overshoot in previous adjustments and the persistent drop in SSAIP from 1999 to 2003 as a result of which there is room for a downward adjustment by 10.7%.

FINANCIAL IMPLICATIONS

8. We estimate that the foregoing proposals will lead to an estimated additional recurrent expenditure of $57 million per year, broken down as follows –

		$ million
(a)	0.4% increase in CSSA standard payments	50
(b)	0.4 % increase in DA standard payments	7
	Total	57

9. We have not allowed for the proposed price adjustments for CSSA Scheme and the SSA Scheme in the 2005-06 draft Estimates. We would absorb the additional two-month increase from within the respective subheads for 2005-06. We would incorporate the new rates into the draft Estimates for 2006-07.

BACKGROUND INFORMATION

Annual adjustment timetable for the CSSA and SSA standard payment rates

10. The Administration sought the views of the Subcommittee on Review of the CSSA Scheme (the Subcommittee) under the Panel on Welfare Services on 22 July and 22 November 2005 on the following proposals to adjust the CSSA and SSA standard payment rates –

(a) to adopt, starting from 2005-2006, an annual adjustment cycle that takes into account the SSAIP movement for the past 12 months ending in October, with approval by Finance Committee (FC) in December, and new rates effected in February of the following year; and

/(b) .....

(b) to seek delegated authority from FC for approval of the new rates to be exercised by the Secretary for Health, Welfare and Food (SHWF) in consultation with the Secretary for Financial Services and the Treasury, as the proposed annual adjustment to the standard payment rates of CSSA and SSA would be automatic on the basis of a fixed cycle and taking into account the inflation/deflation reflected by the SSAIP.

11. The Subcommittee did not object to the automatic adjustment mechanism. Most members, however, were opposed to the proposal to delegate the authority from FC to SHWF to adjust the standard payment rates of CSSA and SSA.

12. We further advised that if movements in the SSAIP and other economic indicators pointed to persistent high inflation, consideration could be given to seeking approval for additional inflationary adjustments to the standard payment rates ahead of the new annual adjustment cycle.

Methodology

13. The Panel on Welfare Services discussed the Administration's proposals in paragraph 10 on 14 November 2005 and is of the view that the Administration should consider reverting to the inflation forecast methodology for adjusting social security payments. We are of the view that this is not appropriate for the following reasons –

(a) The inflation forecast methodology for adjusting social security payments was introduced in 1989. As discrepancies between the forecast inflation and the actual outturn are inevitable, a well established principle of this methodology was that if the forecast increase in SSAIP proved to be different from the actual increase, the differences would be taken into account in calculating the adjustment for the following year.

(b) In the past where there was an under-estimate, the difference was invariably made up in the subsequent year's increase. Adjustments, however, had **not** been made where there was an over-estimate.
Encl. 2 Details are set out in Enclosure 2.

/(c) .....

(c) In view of the forecast errors and the resulting impacts on public spending, the Administration consulted the Panel on Welfare Services and informed the FC in July 1999 that from 1999-2000 onwards reference was to be made to actual changes in the SSAIP when revising the CSSA/SSA standard payment rates.

(d) The problem highlighted in (b) above and its consequential impact on public spending was noted by the Director of Audit. In his audit investigation into the administration of the CSSA and SSA Schemes from late 1998 to early 1999, he noted, among other things, that the combination of the over-estimation of the SSAIP and the deviations from the stated annual inflationary adjustment mechanism in the past years had a significant impact on Government expenditure. He considered that the Administration should adhere to the stated annual inflation adjustment mechanism in future.

14. Panel members nevertheless considered that the present proposals should not be held up and should be put to FC as scheduled.

Health, Welfare and Food Bureau
December 2005

Social Security System

Introduction

Our social security system provides a safety net for individuals and families who are unable to support themselves financially because of age, disability, illness, low earnings, unemployment or family circumstances. The aim of the Comprehensive Social Security Assistance (CSSA) Scheme is to provide financial assistance to individuals or families in need to meet their basic and essential needs. The aim of the Social Security Allowance (SSA) Scheme is to help the severely disabled and the elders and to encourage family support for members with disability or of old age. A person can receive either assistance under the CSSA Scheme or one of the allowances under the SSA Scheme.

Eligibility

2. Both schemes are non-contributory. The CSSA Scheme is means-tested. Applicants for SSA are not subject to means test except that persons aged between 65 and 69 applying for the Old Age Allowance have to declare that their income and assets do not exceed the prescribed levels.

3. There are residence requirements for both Schemes. In addition, able-bodied CSSA applicants who are unemployed or working part-time but available for full-time work are required to actively seek work and participate in the Support for Self-reliance Scheme as a condition of receiving assistance.

4. Elderly persons aged 60 or above who have been in receipt of CSSA continuously for not less than one year may join the Portable CSSA Scheme whereby they are allowed to continue to receive their monthly standard payments and annual long-term supplement should they choose to take up permanent residence in Guangdong or Fujian.

Payment

CSSA Scheme

5. The amount of assistance is determined by the monthly income and needs of a family. The difference between the total assessable monthly income of a family and its total monthly needs as recognized under the Scheme in terms of various types of payment will be the amount of assistance payable. When assessing a family’s monthly income, earnings from employment and training/retraining

allowance can be disregarded up to a prescribed level so as to provide an incentive to work and training/retraining. The current average monthly CSSA payments for different household sizes are given in the table below –

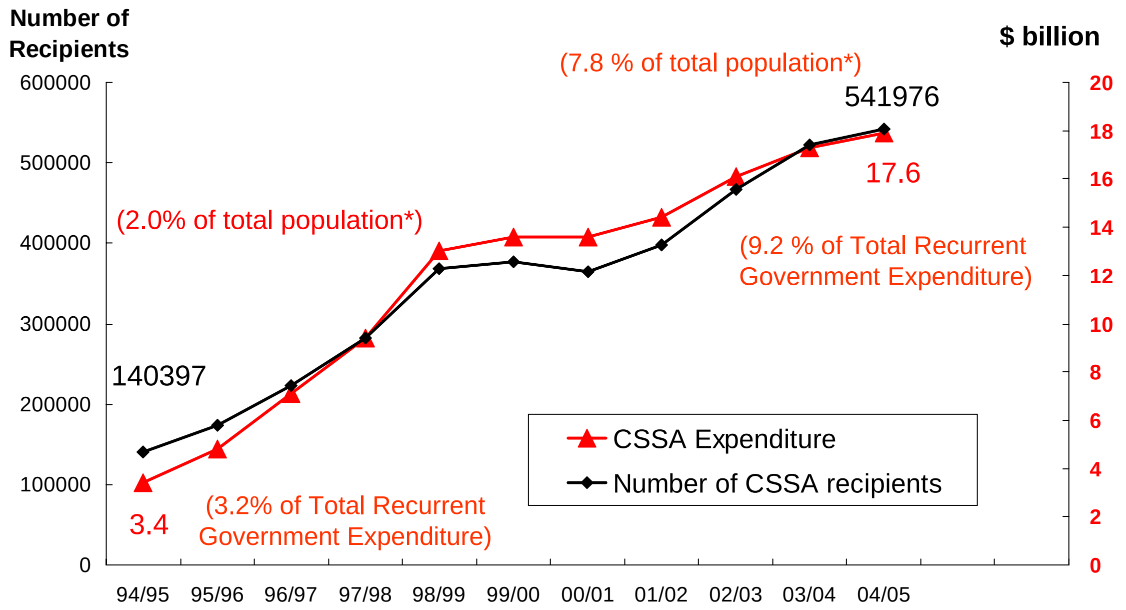
Number of eligible member	**Average monthly CSSA payments * (November 2004 – October 2005)**
1	$3,458
2	$5,771
3	$7,733
4	$9,094
5	$10,796

Note – * Refer to the situation when CSSA cases do not have income other than CSSA payment.

6. The Scheme embraces different standard payments to meet the basic and general needs of broad categories of recipients. In addition, an annual long-term supplement is paid to those who have been receiving assistance continuously for more than 12 months for the replacement of household and durable goods. Monthly supplements are also paid to single parents in recognition of the special difficulties they face in bringing up families on their own without the support of spouses and to severely disabled persons who are not living in residential institutions in recognition of the heavier expenses they may incur while living in the community. Apart from these standard payments, a wide range of non-standard payments in the form of special grants are payable to meet the specific needs of an individual or family. They include payments to cover such expenses as rent, school fees and other educational expenses, medically recommended diets, spectacles and dentures.

7. Overall, the number of CSSA recipients increased from 140 400 in 1994-95 to 542 000 in 2004-05, and government expenditure on this item increased from $3.4 billion to $17.6 billion. CSSA expenditure as a percentage of total government recurrent expenditure increased from 3.2% to 9.2% over the same period.

Overall CSSA Expenditure and Recipients in the Past Decade



Note: * Figures refer to end 1994 and end 2004 respectively.

SSA Scheme

8. Four allowances are payable under this Scheme as follows –

(a) Normal Disability Allowance

For severely disabled persons who, broadly speaking, suffer from a 100% loss of earning capacity, or who are profoundly deaf.

(b) Higher Disability Allowance

For severely disabled persons who require constant attendance from others in their daily life but are not receiving such care in a government or subvented institution or a medical institution under the Hospital Authority.

(c) Normal Old Age Allowance

For persons aged between 65 and 69 whose income and assets do not exceed the prescribed levels.

(d) Higher Old Age Allowance

For persons aged 70 or above.

The current monthly payments for DA and OAA are given in the tables below –

Type of Allowances	**Existing Monthly Rate**
NDA	$1,120
HDA	$2,240
NOAA	$625
HOAA	$705

9. At the end of October 2005, there were 111 780 recipients of DA, of whom 14 340 were HDA recipients and 97 440 NDA recipients. As compared to December 1995, the increase in DA caseload has been 67%, with the number of NDA recipients rising relatively more sharply. In 2005-06, government expenditure on DA is projected at $1,684 million[1], accounting for 0.8% of total government recurrent expenditure[2]. Expenditure on DA increased from $773 million in 1994-95 to $1,587 million in 2004-05, representing an increase of 105%.

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[1] Approved provision for the year.

[2] The percentage makes reference to the draft estimates.

Annual inflation adjustment for CSSA and SSA Standard payment rates

Financial year	SSAIP forecast increase for the year (A)	Adjustment to account for over-projection/ under-projection in the previous year (B)	Increase in standard payment rates approved by FC (C)=(A)+(B)	Actual SSAIP movement for the year (D)
1989-90	8%	+3%	11%	9.8%
1990-91	8%	+1.8%	10%*	8.1%
1991-92	9%	0	9%	10.3%
1992-93	9.5%*	+1.3%*	10.74%*	8.3%
1993-94	9%	0	9%	7.7%
1994-95	7.7%	0	7.7%	7.1%
1995-96	8.5%	0	8.5%	6.2%
1996-97	7%	0	7%	3.4%
1997-98	6.5%	0	6.5%	5%
1998-99	4.8%	The 1.5% over-projection in the previous year to be off-set by deferring the next adjustment date for four months	4.8%	-0.2%

Note – *These are due to rounding effect of the rate increase.
