

ITEM FOR FINANCE COMMITTEE

HEAD 90 – LABOUR DEPARTMENT

Subhead 700 General non-recurrent

New item “Injection into the Pneumoconiosis Ex Gratia Fund”

Members are invited to approve a commitment of \$89 million for making a one-off injection into the Pneumoconiosis Ex Gratia Fund.

PROBLEM

Given its current financial position and the payment trend, the Pneumoconiosis Ex Gratia Fund (the Fund) would likely be depleted in early 2008. We need to restore the financial viability of the Fund so that it can continue to provide benefits to pneumoconiotics who were diagnosed as suffering from pneumoconiosis before 1981 (the pre-1981 pneumoconiotics).

PROPOSAL

2. We propose to make a one-off injection of \$89 million into the Fund to enable it to continue to provide benefits to the pre-1981 pneumoconiotics.

JUSTIFICATION

3. There are currently two schemes providing financial support to pneumoconiotics, namely a statutory compensation scheme set up under the Pneumoconiosis (Compensation) Ordinance (PCO) for people diagnosed on or after 1 January 1981 to have contracted the disease (the post-1981 pneumoconiotics), and an Ex Gratia Scheme for the pre-1981 pneumoconiotics. The statutory scheme is financed by a levy on the construction and quarrying industries. The Ex Gratia Scheme is totally funded by the Government through grants made to the Fund.

4. The benefit items currently provided under the Ex Gratia Scheme are broadly in line with those under the statutory scheme. The range of benefits payable under the Ex Gratia Scheme is given below –

- (a) payment for incapacity arising from pneumoconiosis at a monthly rate of \$1,530 until the death of the pneumoconiotic concerned;
- (b) payment for pain, suffering and loss of amenities resulting from pneumoconiosis at a monthly rate of \$3,180 until the death of the pneumoconiotic concerned;
- (c) payment for care and attention at a monthly rate of \$4,160 to pneumoconiotics whose incapacity is of such nature that they are unable to perform the essential actions of life without the care and attention of others;
- (d) reimbursement of expenses for medical treatments in connection with pneumoconiosis, subject to prescribed limits;
- (e) supply of approved medical appliances that are necessary for the incapacity arising from pneumoconiosis;
- (f) a lump sum death grant of \$100,000 to family members of pneumoconiotics who die of pneumoconiosis; and
- (g) reimbursement of funeral expenses, subject to a ceiling of \$35,000, to any person who has incurred expenses for the funeral of a pneumoconiotic who dies of the disease.

The above payment rates, reimbursable amounts and death grant are subject to adjustment following regular reviews in accordance with established mechanism.

Financial position of the Fund

Encl. 1

5. The Fund has been in deficits for years, as its recurrent income which comes solely from investment of its reserve is grossly insufficient to meet the required ex gratia benefit payments which account for over 98% of the total expenditure of the Fund. The reserve of the Fund has been drawn to cater for the unmet benefit payments. The income and expenditure of the Fund in the past ten years are at Enclosure 1. On the income side, the investment income has been fast diminishing as successive years of deficits result in a rundown of the reserve. On the expenditure side, the benefit payments, though on a declining trend, have been higher than originally envisaged due to the longer-than-expected life expectancy of

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surviving beneficiaries. The last time we sought the Finance Committee's approval for injection into the Fund was in October 1997 (vide FCR(97-98)48). At that time, we projected that there would only be 25 surviving beneficiaries as at the end of 2006, and the Ex Gratia Scheme would have to operate up to 2011 when all beneficiaries were expected to have passed away. However, subsequent figures reveal that the surviving beneficiaries enjoyed a much longer lifespan. As at the end of April 2007, there were 197 surviving beneficiaries^{Note}. As such, the Ex Gratia Scheme will need to operate well beyond 2011 to meet the Government's commitments in full under the Ex Gratia Scheme. A comparison of the profile of beneficiaries under the Ex Gratia Scheme in 1997 and 2006 is at Enclosure 2.

6. By the end of March 2007, the Fund had a balance of \$12.4 million. As this is quite close to the estimated net expenditure of about \$13 million for 2007-08, the Fund would likely be depleted in early 2008. We need to inject adequate funding into the Fund to restore its financial viability and enable it to continue to provide benefits to the pre-1981 pneumoconiotics.

FINANCIAL IMPLICATIONS

7. Based on the age profile and average mortality rates of the pre-1981 pneumoconiotics from 1997 to 2005, the projected expenditure of the Fund will fall from some \$13 million in 2007 to about \$0.8 million at money-of-the-day prices by 2039. Under these assumptions, the Ex Gratia Scheme would have to operate up to 2039 to completely discharge the Government's commitments, and entail expenditure amounting to some \$146 million at money-of-the-day prices between 2007 and 2039. Assuming an inflation rate of 3% and a projected return of investment at 5% per annum, we will need an injection of \$89 million into the Fund to enable the Ex Gratia Scheme to continue to provide lifelong benefits to the surviving beneficiaries up to 2039. The amount will be injected into the Fund on a lump sum basis so as to provide a larger reserve for generating investment income to sustain the financial viability of the Fund.

8. The Pneumoconiosis Compensation Fund Board (PCFB) is responsible for the management of the Fund and the disbursement of payment to eligible applicants. The PCFB will continue to prepare annual estimates of income and expenditure and audited accounts for the Fund for submission to the Government.

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^{Note} The discrepancy is mainly attributable to the following reasons: (a) a more accurate projection is only possible with the availability of more data about the pre-1981 pneumoconiotics; (b) improvements made to the benefit package provide better medical care and more financial resources to improve the health conditions of the beneficiaries; and (c) they have also benefited from the active healthcare services and rehabilitation activities introduced since 1996.

PUBLIC CONSULTATION

9. We briefed the Labour Advisory Board and the Legislative Council Panel on Manpower on the proposal on 11 May 2007 and 21 June 2007 respectively. Both supported the proposal.

BACKGROUND

10. Pneumoconiosis is a disease of the lung which is prone to be contracted by those who have been working for a long time in a dusty environment such as a construction site or quarry. Once contracted and the lung damaged, the condition is irreversible and the health of the sufferers will deteriorate.

11. When the PCO was enacted in November 1980 to provide for a statutory compensation scheme on a collective liability basis for the post-1981 pneumoconiotics, the Government committed to provide ex gratia payment out of general revenue for the pre-1981 pneumoconiotics. In this connection, the Government allocated \$72.4 million to set up an ex gratia payment scheme to provide one-off ex gratia payments to them. Payments totalling some \$42 million were made out of the scheme.

12. The PCO was amended in 1993 to improve the compensation package for the post-1981 pneumoconiotics. The improved benefits included mainly a change of the basis for assessing compensation and replacement of the lump sum compensation by monthly payments. In line with such improvements, the Government introduced in 1993 a new Ex Gratia Scheme to provide lifelong quarterly payments to the pre-1981 pneumoconiotics. In this regard, the Government made a grant of \$145 million which, together with some \$30 million unspent balance under the former ex gratia payment scheme, was put under the Fund to support the Ex Gratia Scheme.

13. In 1997, the Government made an additional injection of \$27 million into the Fund for further improvements to the Ex Gratia Scheme so as to bring the benefit items broadly in line with those payable under the PCO. The new benefits included reimbursement of medical expenses, payment for pain, suffering and loss of amenities, payment for care and attention and death grant to family members of the pneumoconiotics who died of pneumoconiosis. In March 2006, the Government made an injection of \$9.8 million into the Fund in anticipation of the depletion of the Fund in early 2007.

14. Under the Memorandum of Understanding signed by the Government and the PCFB, the management of the Fund and the disbursement of payment to eligible applicants are entrusted to the PCFB, while the Labour Department remains responsible for processing all applications and determining eligibility for ex gratia payments. In accordance with the approved guidelines, the PCFB invests the part of the Fund which is not immediately required in fixed deposits placed with licensed banks in Hong Kong and fixed rate Certificates of Deposit.

Labour Department
June 2007

Pneumoconiosis Ex Gratia Fund
Income and Expenditure between 1997-98 and 2006-07

Year	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07²
Income (\$'000)	9,372	11,147	8,535	7,244	5,007	3,083	2,535	815	560	691
Expenditure (\$'000)	20,975	24,944	24,675	23,290	21,920	20,863	19,944	17,028	15,680	13,331
Deficit (\$'000)	11,603	13,797	16,140	16,046	16,913	17,780	17,409	16,213	15,120	12,640
Balance (\$'000)	144,681	130,884	114,744	98,698	81,785	64,005	46,596	30,383	25,063¹	12,423

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1. An injection of \$9.8 million was made into the Ex Gratia Fund in March 2006.
2. Provisional figures.

**Profile of Beneficiaries under
the Pneumoconiosis Ex Gratia Scheme**

Year	1997	2006
No. of surviving beneficiaries at year-end	430	204
Median age of surviving beneficiaries	70	77
No. died during the year	20	22
Median age at death	70.5	78.5
