

For information
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LEGCO PANEL ON WELFARE SERVICES

Review of the Provision of Disregarded Earnings under the Comprehensive Social Security Assistance Scheme

Purpose

The purpose of this paper is to brief Members on the outcome of the review of the scope for disregarded earnings (DE) under the Comprehensive Social Security Assistance (CSSA) Scheme.

Background

Purpose of DE

2. DE refers to the earnings from employment that are disregarded when assessing the amount of CSSA payable. The provision of DE allows CSSA recipients who work to be financially better off than those relying entirely on welfare, thus encouraging those who can work to find and remain in employment.

Changes to the DE arrangements in 2003

3. In June 2003, we raised the maximum level of monthly DE from \$1,805 to \$2,500 and its “no-deduction limit” from \$451 to \$600, while at the same time introducing the rule of allowing no DE for CSSA recipients in cases which have been on CSSA for less than three months. These changes were implemented on a time-limited basis for three years subject to review. We have completed the review and set out below is the outcome of our review.

Current Arrangements

4. The current arrangements of DE are as follows :
- (a) At present, the monthly earnings of CSSA recipients can be partially disregarded up to a maximum of \$2,500. The first \$600 of the monthly earnings (the “no-deduction” limit) and 50% of the remaining monthly earnings are disregarded up to a maximum of \$2,500 :

Earnings	Level of disregard	Maximum amount to be disregarded
First \$600	100%	\$600
Next \$3,800	50%	\$1,900
\$4,400 or above	The first \$600 and half of next \$3,800	\$2,500

- (b) All categories of CSSA cases that have been in the CSSA net for not less than three months can benefit from the provision of DE.

- (c) The first month's income from a new job can be totally disregarded on condition that the recipient has not benefited from this provision during the past two years. This provides an added incentive for unemployed CSSA recipients to find work.

Outcome of the Review

5. The Financial Secretary announced in his 2007-08 Budget Speech on 28 February that on DE, the Administration will -

- (a) raise the 'no-deduction' limit for DE from \$600 to \$800; and
- (b) relax the criteria for allowing CSSA recipients to be eligible for DE from not less than three months on CSSA to not less than two months.

As to other suggestions on the DE arrangements, we recommend the following -

- (c) maintain the maximum level of DE; and
- (d) maintain no time limit on DE.

Relevant Considerations

6. The provision of DE under the CSSA Scheme is a very complex issue. On the one hand, there appears a case for providing CSSA recipients with more financial incentives through the provision of DE to find and remain in

employment. On the other hand, more generous DE may render more people eligible for CSSA and delay their exit from the system.

7. The total amount of earnings of CSSA recipients that is disregarded has risen significantly over the recent past, because of various improvements on DE and the growing number of CSSA cases involving employable adults benefiting from DE. It soared from \$298.9 million (equivalent to 2.1% of total CSSA expenditure) in 2001-02 to \$830.7 million (equivalent to 4.7% of total CSSA expenditure) in 2005-06, up \$531.8 million or 178%. Over the same period, by comparison, total expenditure on CSSA went up by 23.3%.

Recommendations

8. We have examined some possible options and recommend to improve the provision of DE as follows.

(a) Raise the “no-deduction” limit from \$600 to \$800

9. The current “no-deduction” limit was last raised in June 2003 by 33% from \$451 to \$600. There has been a suggestion that the “no-deduction” limit should be adjusted upwards to allow those earning a relatively small income from part-time or casual work to retain more of their income. We have recommended raising the “no-deduction” limit of monthly DE from \$600 to \$800. With the implementation of the New Dawn Project¹ since April 2006, it is expected that more single parents and child carers will find part-time jobs. In recognition of the costs of meals taken at work and other employment-related expenses, for example, clothing and transport costs, a moderate increase of \$200

¹ Under the New Dawn Project, CSSA single parents and child carers with the youngest child aged 12 to 14 are required to seek part-time employment (defined as a paid job entailing not less than 32 hours a month).

in the “no-deduction” limit should provide more incentives for CSSA recipients to take up part-time or casual employment if this is all that is available. Part-time and occasional jobs do help welfare recipients maintain contact with the labour market, thus providing them with more opportunities to improve their employability and find a full-time job. It is hoped that through developing a working habit, CSSA recipients will ultimately be self-reliant and leave the CSSA net.

(b) Relax the “no DE for the first three months” rule to a two-month rule

10. In the 2003 changes to the DE arrangements, we introduced the rule of allowing no DE for recipients who have been on CSSA for less than three months (the “no DE for the first three months” rule) to prevent those considered to have sufficient means to meet their basic needs from gaining entry into the welfare system. We now recommend relaxing the rule to a “two-month” rule to encourage existing CSSA recipients to seek employment earlier.

(c) Maintain the maximum level of DE

11. The existing maximum level of DE was increased from \$1,805 to \$2,500 in June 2003. We consider that there is no case for further raising the maximum level of monthly DE. At the end of March 2006, only 14 114 or 52% of the employable recipient in paid employment earned a monthly income which is sufficient to allow them to enjoy the maximum level of monthly DE. We have no evidence that there is an unmet demand for higher rates of DE.

12. In this light, we do not propose any increase in the level of the maximum amount of DE.

(d) **Maintain no time limit on DE**

13. There has been suggestion to provide CSSA recipients a more generous monthly DE with a time limit whereby the maximum level of monthly DE will decline over time and be phased out after a certain period. We do not consider it desirable to set a time limit on DE at this stage. Operationally, the proposal would be complex to administer. It would require development of a computer system to count individual CSSA recipients' months of receipt of DE and calculate their DE entitlement based on their earnings and their "DE clock" status. It will also increase the administrative cost of CSSA.

Financial Implications

14. The recurrent financial implications for implementing the whole package will be around \$30 million. It is estimated that 19 800 recipients could benefit if the proposed arrangements are approved. A submission will be made to the Finance Committee of the Legislative Council in April to seek funding approval for this proposed arrangement.

Consultation

15. We briefed the Social Welfare Advisory Committee (SWAC) on the outcome of the review in paragraph 5 above on 1 December 2006 and the Commission on Poverty (CoP) on 8 January 2007. Both the SWAC and CoP supported the proposal.

Advice Sought

16. Members are invited to note and comment on the outcome of the review.

Health, Welfare and Food Bureau

Social Welfare Department

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