

For information
on 12 April 2007

LEGCO PANEL ON WELFARE SERVICES

Provision of Disregarded Earnings under the Comprehensive Social Security Assistance Scheme

Purpose

This paper provides supplementary information on disregarded earnings (DE) under the Comprehensive Social Security Assistance (CSSA) Scheme.

Background

2. The Social Welfare Department (SWD) has adopted a 'welfare-to-work' approach to assist the able-bodied unemployed CSSA recipients to become self-reliant.

3. SWD has implemented the Support for Self-reliance (SFS) Scheme to assist CSSA recipients to improve their employability and maximize their chances to obtain paid employment. The SFS Scheme comprises three main components -

(a) The Active Employment Assistance (AEA) Programme

Under the AEA programme, personalized employment assistance will be rendered to individual recipients to meet his needs. The programme aims to empower the applicant to overcome his work barriers, enhance his employability and find a paid job.

(b) The Community Work (CW) Programme

The CW Programme aims at helping participants develop work habit, improve socialization, and increase self-esteem, paving the way for paid employment and work for the community while receiving CSSA.

(c) Disregarded Earnings (DE)

The provision of DE allows 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. The current arrangements for DE is at Annex.

In addition, we introduced Intensive Employment Assistance Projects (IEAPs) to provide tailor-made employment services to help employable CSSA recipients secure gainful employment as early as possible so that they can move towards self-reliance.

4. 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.

Review of DE

5. The increased levels of monthly DE and its 'no-deduction' limit aimed to provide more financial incentives for CSSA recipients who can work to find work and increase their earnings, thus reducing their welfare dependency. However, the process of moving into work is rarely straightforward, and many factors, including financial incentives and the labour market conditions, may play a part in determining a welfare recipient's behaviour.

6. Over the past few years, there has been a steady decline in CSSA 'unemployment' cases from 51 372 in September 2003 to 36 887 in February 2007. It is, however, difficult to segregate the effect of the DE arrangement from other contributory factors, such as the improved economy, the more favourable labour market conditions, and the strengthening of other measures under the SFS Scheme to help unemployed CSSA recipients move into work.

7. On balance, our recommendations of the review are as follows –

- (a) raising the 'no-deduction' limit for DE from \$600 to \$800;
- (b) relaxing 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;
- (c) maintaining the maximum level of DE; and

- (d) maintaining no time-limit on DE.

We consider that the above recommendations have struck a reasonable balance between providing CSSA recipients with more financial incentives through the provision of DE to find and remain in employment while maintaining the DE at a level which would not attract entrance to the CSSA net unless they are in genuine need; and at the same time not to encourage delay in the exit of existing recipients from the system.

Specific Issues Raised by Members

8. Our responses to the specific points raised by Members at the Special Welfare Panel meeting on 30 March 2007 are set out below –

(A) Raising the ‘no-deduction’ limit for DE from \$600 to \$1,000

9. Some members suggested raising the no-deduction limit from \$600 to \$1,000, which represents a 66.7% increase in the DE. It might find favour with more people to enter the rolls. It may also act as a greater disincentive for CSSA recipients to leave the CSSA net. The estimated recurrent financial implication for this suggestion is \$43 million.

(B) Abolishing the ‘no DE for the first three months’ rule

10. In 2003, we raised the maximum level of monthly DE from \$1,805 to \$2,500 to provide more financial incentives for employable CSSA recipient to move from welfare to work. On the other hand, we introduced the rule of allowing no DE for recipients in cases which have been on CSSA for less than three months to deter those who would have sufficient means to meet their basic needs from gaining entry into the welfare system.

11. Some Members suggested abolishing the rule. Abolishing the rule altogether may allow those who are in employment and at income level not eligible for assistance under the current arrangement to become eligible as a result of removing the ‘three-month’ rule. For example, the average monthly CSSA payment for a 4-person family without any income is now about \$9,344. A 4-person family with monthly income of \$9,344 and above is not eligible for assistance under the current arrangement. The proposal would mean that a 4-person family with a monthly income less than \$11,844 (\$9,344 + \$2,500) could qualify for CSSA.

12. It is not possible to make an informed guess on the additional expenditure and the number of additional household that would enter the welfare rolls as a result of the higher income limits.

(C) Raising the maximum level of DE from \$2,500 to \$3,500

13. We do not see a case for further raising the maximum level of DE on the following grounds –

- (a) before June 2003, the level of monthly DE was pegged to the standard rate for single able-bodied adults. It was then raised by some 40% from \$1,805 to \$2,500 (equivalent to 155% of the standard rate for able-bodied adults); and
- (b) the current benefit levels for larger households are already appreciably higher than market wages for low-skilled jobs. A higher level of monthly DE will further push the total resources of CSSA families with an employed member further above market wages. For example, a 4-member CSSA family can receive \$9,344 (the average monthly CSSA payment) plus \$3,500 (if an adult enjoys maximum DE), i.e. \$12,844, which is higher than the average monthly income (\$9,500) of a 4-member non-CSSA households in the lowest 25% income group.

The estimated recurrent financial implication for this suggestion is \$121 million.

14. The combined financial implications for adopting all the suggestions (A), (B) and (C) above will be even greater than the aggregation of the respective financial implications because more people might be attracted to enter the welfare rolls. It is however not possible to make a realistic estimate on the combined effect given the difficulty in making an informed estimate of the number of additional households that might enter the welfare rolls. It is also worth noting that the financial implications for the various suggestions will be on a recurrent basis.

15. Members are invited to note the supplementary information provided in this paper.

Health, Welfare and Food Bureau
Social Welfare Department
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Current Arrangements for DE

At present, CSSA recipient's monthly earnings can be partially disregarded up to a maximum of \$2,500. We disregard totally the first \$600 of their monthly earnings (the 'no-deduction' limit), and 50% of their remaining monthly earnings until the total amount of monthly DE reaches \$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

- All categories of recipients in cases which have been on CSSA for not less than three months can benefit from the provision of DE.
- 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 provision aims to provide an added incentive for unemployed CSSA recipient to find work.