

LEGCO PANEL ON WELFARE SERVICES

Annual Adjustment of Standard Payment Rates under the Comprehensive Social Security Assistance Scheme and the Social Security Allowance Scheme and Supplementary Provision for the Social Security Schemes

PURPOSE

This paper briefs Members on the following –

- (a) the latest position of the Social Security Assistance Index of Prices (SSAIP) and the estimated corresponding adjustment to the standard payment rates under the Comprehensive Social Security Assistance (CSSA) Scheme and Disability Allowance (DA) of the Social Security Allowance (SSA) Scheme from February 2008; and
- (b) the latest plan to seek the approval of the Finance Committee (FC) in December 2007 for a supplementary provision of \$384 million for the CSSA and SSA Schemes as the approved provisions may be inadequate to meet the anticipated expenditure in 2007-08.

THE ANNUAL ADJUSTMENT CYCLE

2. On 14 November 2005, we presented to the Panel and Members noted that the standard payment rates of CSSA and SSA would be adjusted regularly on an annual basis, taking into account the inflation/deflation reflected by the SSAIP with the following sequence –

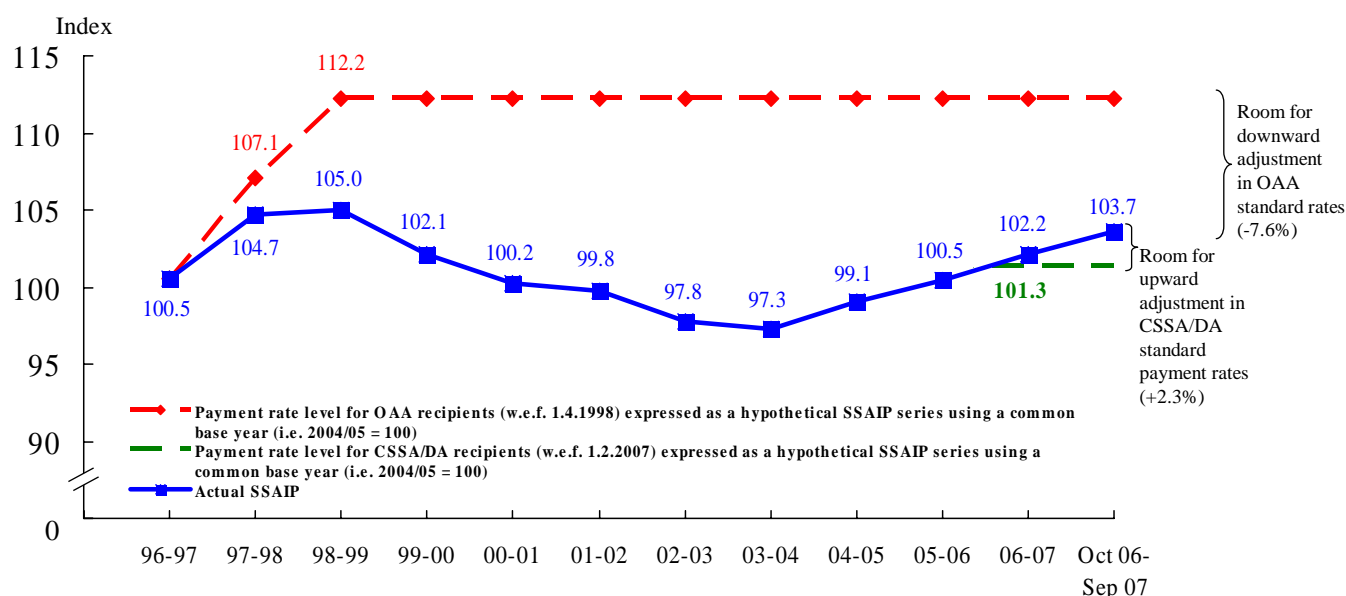
- (a) presentation to the Panel on Welfare Services;
- (b) submission to FC for approval in December, on the basis of the movement of the SSAIP for the past 12 months, i.e. from 1 November of a year to 31 October of the following year; and

- (c) introduction of the new rates in February to allow sufficient time for the Social Welfare Department (SWD) to make the necessary adjustment to its computer system to make the adjusted payment to about 620 000 recipients (including 500 000 CSSA recipients and 120 000 DA recipients).

Accordingly, FC last approved the proposed adjustment of 1.2% to the standard payment rates under the CSSA Scheme and DA under the SSA Scheme at its meeting on 15 December 2006. SWD implemented the new rates on 1 February 2007.

3. Up to September 2007, the 12-month moving average SSAIP registered a cumulative increase of 2.3% when compared with the period of November 2005 – October 2006. The figure for October 2007 (which will form the basis for our submission to the FC) will only be available by end-November.

Chart 1: Room for upward/downward adjustments to the CSSA/SSA standard payment rates



FINANCIAL IMPLICATIONS

4. As the latest SSAIP figure for the past 12 months ending 31 October 2007 will not be available until end-November, the exact financial implications and effect on CSSA/DA standard payment rates will only be known in early December. For reference, increasing the standard rates by

2.3% for 500 000 CSSA and 120 000 DA recipients would involve additional social security expenditure of about \$345 million a year. The current average monthly CSSA payments for different household sizes and the monthly rates for DA (comprising Normal Disability Allowance (NDA) and Higher Disability Allowance (HDA)) are set out in the tables below –

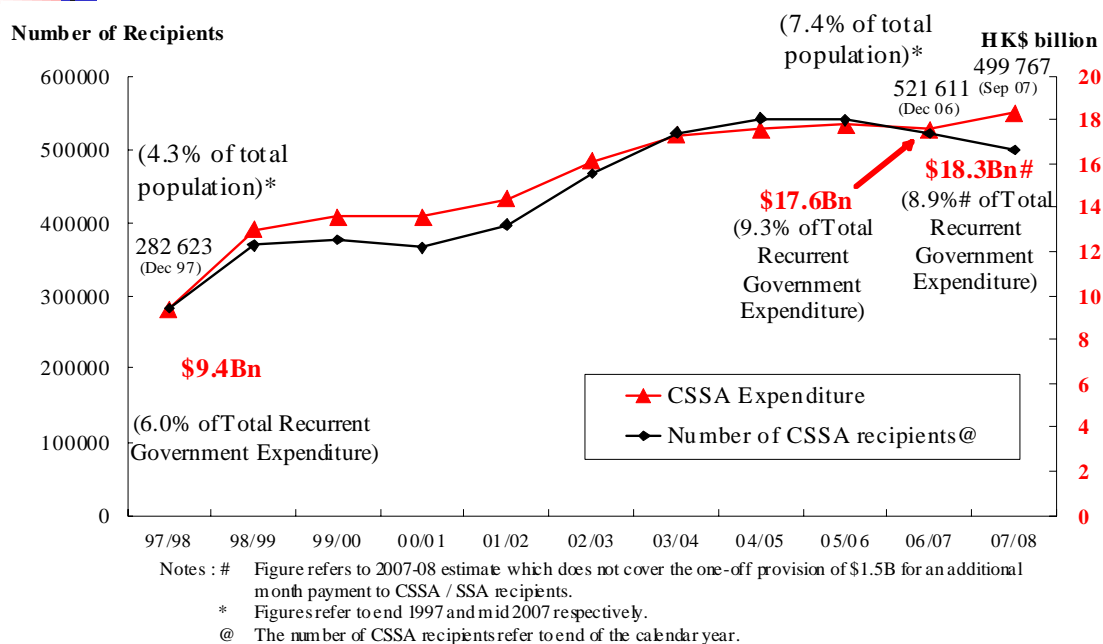
Number of eligible member	Estimates on average monthly CSSA payments * (with an increase of 1.2% in standard payment rate with effect from 1.2.2007)
1	\$3,539
2	\$5,897
3	\$7,914
4	\$9,344
5	\$11,092

Note: * Refer to the situation when CSSA cases do not have incomes other than CSSA payment. The estimate is based on CSSA cases during November 2005 - October 2006 and adjusted in accordance with CSSA rates implemented as from 1.2.2007.

Type of DA	Existing Monthly Rate
NDA	\$1,140
HDA	\$2,280

5. Overall, the government expenditure on CSSA rose from \$9.4 billion in 1997-98 to \$17.6 billion in 2006-07. The estimated expenditure on CSSA in 2007-08 is \$18.3 billion. The CSSA expenditure as a percentage of total recurrent government expenditure increased from 6.0% to 9.3% over the period between 1997-98 and 2006-07 and that of 2007-08 is 8.9% (estimate).

Chart 2: Overall CSSA Expenditure and Recipients in the Past Decade



6. As to DA under the SSA Scheme, there were 119 467 DA cases in September 2007, of which 104 573 were NDA cases and 14 894 HDA cases. Over the last decade, the increase in DA caseload has been 57.9%, with the number of NDA cases rising relatively more significantly. In 2007-08, the government expenditure on DA is projected to be \$1.9 billion¹, accounting for 0.9% of total government recurrent expenditure². Overall, the government expenditure on DA in the last decade increased from \$1.2 billion in 1997-98 to \$1.9 billion (projected) in 2007-08, representing an increase of 58.4%.

ARRANGEMENT OF OLD AGE ALLOWANCE

7. There has been no adjustment to the Old Age Allowance (OAA), which is the other component (apart from DA) of the SSA Scheme, despite the persistent drop in SSAIP from 1999 to 2003. As a result, our latest assessment indicates that there still exists room for a downward adjustment by 7.6%. However, we do not propose to revise the OAA downwards.

SUPPLEMENTARY PROVISION REQUIRED

8. The approved provisions for CSSA and SSA for 2007-08 are

¹ Draft estimate for the year.

² The percentage is based on the draft Estimates for 2007-08.

\$18,267 million and \$5,881 million respectively. As at end-September 2007, the cumulative expenditure on CSSA and SSA for the first six months of this financial year was \$9,844 million and \$3,254 million respectively, representing 53.9% and 55.3% of the approved provision.

9. CSSA and SSA are non-cash-limited schemes and payment should not be withheld from or delayed to the concerned recipients. On 20 April 2007, FC approved the provision of one additional month of the standard rate of CSSA payment for CSSA recipients and one additional month of the SSA payment for SSA recipients. In view of the additional payment, we estimate that the approved provisions for CSSA and SSA are likely to be inadequate to meet the anticipated expenditure in 2007-08. Given this and having regard to the projected changes in caseload and the adjustment to the standard payment rates to reflect the movement of the SSAIP with effect from February 2008, we plan to seek a supplementary provision of \$173 million for the CSSA scheme and \$211 million for the SSA scheme to ensure that adequate funds will be available for the SWD to make payments on time. Our latest estimates are as follows –

<u>CSSA</u>	<u>\$ million</u>
Approved provision	18,267
Expenditure from 1 April 2007 to 30 September 2007	(9,844)
Estimated expenditure from 1 October 2007 to 31 March 2008	<u>(8,596)</u>
Estimated shortfall	173
<u>SSA</u>	<u>\$ million</u>
Approved provision	5,881
Expenditure from 1 April 2007 to 30 September 2007	(3,254)
Estimated expenditure from 1 October 2007 to 31 March 2008	<u>(2,838)</u>
Estimated shortfall	211
Total	384

THE WAY FORWARD

10. To tie in with the annual adjustment cycle as stated above, we will seek the approval of FC for the revised rates of CSSA and DA standard payments on the basis of the latest available SSAIP figure in December 2007, together with the supplementary provision required based on our latest estimate. The new rates so approved by FC will be implemented with effect from 1 February 2008.

11. Members are invited to note the content of this paper.

**Labour and Welfare Bureau
November 2007**