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Panel on Welfare Services

Subcommittee on Retirement Protection

**Background brief prepared by the Legislative Council Secretariat
for the meeting on 6 May 2011**

Retirement protection in Hong Kong

Purpose

This paper summarizes the major concerns raised by the Panel on Welfare Services ("the Panel") and its Subcommittee on Elderly Services on the social security assistance and retirement protection for the needy elderly.

Background

2. According to the updated projections released by the Census and Statistics Department in July 2010, the proportion of the population aged 65 and above will rise from 13% in 2009 to 28% in 2039. The pace of population ageing is projected to be gradual up to around 2019 (when the proportion will reach 17%), then accelerating in the following 10 years (where the proportion will be 25% in 2029), and moderating in the last 10 years of the projection period. The ageing trend is also revealed by the increasing median age of the population, from 40.7 in 2009 to 47.6 in 2039.

3. According to the Administration, Hong Kong has adopted the three-pillar model for retirement protection advocated by the World Bank, viz. the Mandatory Provident Funds ("MPF") Scheme, the non-contributory social security system (including the Comprehensive Social Security Assistance ("CSSA") Scheme and the Social Security Allowance Scheme), and voluntary private savings.

Members' major deliberations and concerns

Social security system

4. The Panel had all along been concerned about the financial assistance for the needy elders. Some members pointed out that some needy elders were ineligible for applying for CSSA simply because of the requirement to apply for CSSA on a household basis. Under this requirement, elders could not apply for CSSA on an individual basis if their family members declined to make the statement on non-provision of financial support or provide documents to prove that their income was unable to support their parents even though they were living together.

5. Some members considered that although the nature of Old Age Allowance ("OAA") was a token of respect to the senior citizens, this had in effect turned into a form of relief money for those poor elders who lacked family support or retirement protection and had not applied for CSSA for various reasons. Members had time and again urged the Administration to increase the OAA rates to \$1,000 per month and relax the permissible limit of absence from Hong Kong to 360 days in a year. The latter would obviate the need for OAA recipients to return to Hong Kong to continue to receive the allowance. The level of OAA was increased to \$1,000 with effect from January 2009.

6. In the Administration's view, the CSSA Scheme provided a safety net of last resort for those who could not support themselves financially. Elderly recipients received a higher standard payment covering their basic needs. They could also receive special grants and supplements for various items to meet their special needs arising from old age. The self-occupied property of an elderly or a family with an elderly member was totally disregarded from the CSSA assets test.

7. The Panel was briefed at the meeting on 8 November 2010 of the Administration's proposal to reduce the minimum residence requirement for OAA from 90 days to 60 days in a payment year. According to the Administration, elderly people could enjoy greater flexibility in taking up residence, travelling or visiting relatives in the Mainland under the new arrangement. The Finance Committee approved on 17 December 2010 the new permissible limit of absence to be effective from 1 February 2011.

Introducing a maintenance allowance

8. In the 2010-2011 Policy Address, the Chief Executive stated that as the relationship between Hong Kong and Guangdong grew closer and some senior citizens wanted to retire in Guangdong, he had asked the Secretary for Labour and Welfare to study further the feasibility of such arrangements.

9. When the Panel was briefed on the policy initiatives under the 2010-2011 Policy Address, members were advised that the Administration was aware of a proposal suggested in the community for the introduction of a maintenance allowance for elders who chose to retire on the Mainland. The Administration was open-minded on it and would embark on a feasibility study to examine in detail the merit of introducing such a proposal having regard to the legal, financial and technical issues involved. It was expected that the study would be completed in about one year's time.

10. Some members considered that as the community had already made clear the request for introducing a maintenance allowance for elders, they did not see the need for the Administration to carry out a study on the matter. In the absence of a universal retirement protection scheme, they urged the Administration to roll out the implementation details as early as practicable.

Setting up an Old Age Pension scheme/universal retirement protection scheme

11. At the Panel meeting on 13 June 2005, most members and the attending deputations urged the Administration to re-consider the establishment of a mandatory contributory pay-as-you-go Old Age Pension ("OPS") scheme to provide better retirement protection for all elderly in Hong Kong.

12. The Administration pointed out that during the discussion in the mid-1990s over the possibility of setting up an OPS scheme, while some members of the public gave support to the proposal, others considered it unfair because of a lack of relationship between benefits and contributions. Some also claimed that the OPS scheme would shift the burden of old age protection from individuals/families to the society. There was also concern that the OPS scheme did not target assistance at those in need, hence the question of inter-generational equity. Against the aforesaid background and given that the MPF Scheme was intended to be one of the two mandatory pillars recommended by the World Bank and had only been

implemented for a short period of time, the Administration considered that the priority in the next few years should be placed on developing the second of the mandatory pillars, i.e. a sustainable safety net for needy elders. The Administration further pointed out that although the World Bank's three-pillar model was used as a framework for providing financial protection to elders in Hong Kong, it would continue to adopt an open mind on any viable options which could be sustainable in the long run.

13. The motion on setting up a universal retirement protection scheme was negated at the Council meeting of 26 April 2006. Some members took the view that the motion should have been carried if it were a Government's motion as a majority of Members had voted in favour of it. The motion was negated simply because Members returned from the functional constituencies had voted against it. These members were of the view that it was incumbent upon the Administration to pursue the setting up of a universal retirement protection scheme for all elderly, and it was unreasonable for the Administration to insist on a consensus before implementation.

14. Some other members supported the conduct of studies to find out ways to provide better retirement protection to all older persons. They were of the view that despite its deficiencies, the MPF Scheme had been in place for quite some time and could serve its purpose to a certain extent. Hence they would not support the proposal of scrapping the MPF Scheme altogether.

15. At the meeting on 8 June 2006, most members and the attending deputations urged the Administration to set up a universal retirement protection scheme. They pointed out that the MPF Scheme could not benefit the current cohort of older persons, and did not cover people not participating in the workforce, such as housewives. For those with low income, the benefits of MPF were limited. A motion urging the Administration to, among other things, immediately implement a sustainable universal retirement protection scheme to enable all older persons to get immediate basic financial security was passed at the meeting.

16. In the Administration's view, it was highly doubtful whether the public would support the implementation of a universal retirement protection scheme whereby half of an individual's personal savings under the MPF Scheme would be pooled and re-distributed to the current generation of elders regardless of the means of the elders. It was also questionable whether such a scheme could be sustained in the long run, as

seen from some overseas experience, because of the ageing population, lower fertility rate and increasing life expectancy. The Administration was requested to revert to the Panel on how it would provide better retirement protection to the current and future generations of older persons.

17. In response to the motion, the Administration advised that in light of the ageing population, it was aware of the need to look into various issues concerning the elderly. The profiles of the future elderly might also change with higher education and changing family pattern. As some of the issues involved considerations of not only welfare policies, such as retirement protection and the right balance between private and public contribution, a co-ordinated response was called for. To assess the financial sustainability of the three pillars of retirement protection, an Expert Panel on Financial Security in Old Age ("Expert Panel") had been formed in July 2004 by the Central Policy Unit ("CPU") to develop a research agenda on financial security in old age. Some research topics such as studies to look into the financial disposition of the current and future generations of the elderly and their retirement plans had been developed. The Expert Panel was expected to come up with initial findings in early 2006. The Government would consider the findings of the study in deciding the future course of action.

18. In response to concerns raised by members on various occasions regarding the progress of the CPU's study, the Administration advised that two studies on "Household Survey on the Financial Disposition and Retirement Planning of Current and Future Generations of Older Persons" and "Sustainability of the Three Pillars of Retirement Protection in Hong Kong" had been conducted as part of the research plan formulated by the Expert Panel. CPU received the preliminary findings of the first study and the second study in 2007 and 2008 respectively. The Expert Panel would deliberate on the findings of the two studies, and submit a report to the Head of CPU, who would submit his considered views to the Chief Executive in due course.

19. To provide genuine assistance for the elderly in need, members strongly urged the Administration to study the feasibility of introducing a universal retirement protection scheme without further delay. They also urged the Administration to come up with a concrete timetable for publishing the findings of the CPU's study on the financial sustainability of the existing three pillars of retirement protection.

Proposal to set up a subcommittee to study the subject of retirement protection

20. At the special meeting of the Panel held on 18 December 2010, members received views from 37 deputations on the subject of "Universal retirement protection". With reference to the three-pillar model for retirement protection, the deputations were of the view that the model was inadequate for protecting the retirement life of all people, especially the low-income earners and the non-economically active labour force. First, some needy elderly had not applied for CSSA for various reasons such as the requirement of making applications on a household basis. Second, the MPF Scheme could not benefit the current cohort of older persons, and did not cover people not participating in the workforce, such as housewives. For those with low income, the benefits of MPF were limited even in the longer term having regard to the fluctuation of the financial market and high MPF management fees. Moreover, the MPF Scheme was not entirely satisfactory since employers were allowed to offset the long service payments or severance payments as required under the Employment Ordinance by the employers' contributions under the MPF Scheme. Lastly, the low-income earners could hardly accumulate adequate savings for their twilight years when they were young. Some deputations pointed out that the proposed scheme would have greater sustainability if more funds could be accumulated when there was a greater proportion of young population. In the light of the ageing population, the deputations strongly urged the Administration to implement without delay universal retirement protection for all people in Hong Kong with contributions from the Government.

21. Members shared the views of the deputations, and were of the view that the Administration should make public the findings of the CPU's study and consult the public on its way forward on the retirement protection for the ageing population in Hong Kong.

22. A motion urging the Administration to establish an inter-departmental task force and the Panel to appoint a subcommittee to follow up the subject of implementing universal retirement protection for all people in Hong Kong was passed by the Panel at the meeting on 18 December 2010.

23. At its meeting on 10 January 2011, members were advised of the Administration's response to the motion passed by the Panel. According to the Administration, CPU was refining its study on the sustainability of the three-pillar model for retirement protection in Hong Kong and making a

new round of projections on the situation of retirees in 30 years' time having regard to the latest developments. These included the impacts of the financial tsunami on the household consumption and savings patterns, relaxation of the permissible absence from Hong Kong for OAA recipients as well as the proposed Health Protection Scheme. In the course of refining the study, CPU would take account of the latest opinion in the community on retirement protection for the elderly and tap the views of academics, professionals, think tanks and interested parties as appropriate through its established channels. CPU was expected to submit the updated findings to the Government in 2012. As the CPU study was ongoing and the relevant bureaux would be consulted in due course, the Administration saw no need to establish an inter-departmental task force on the subject for the time being.

24. Members did not consider it necessary for CPU had to refine its study on retirement protection in the light of changes in the economic environment as economic fluctuations were not something uncommon. The unduly long time taken for the CPU study was unacceptable. Members considered that the Administration had made use of the belated CPU study as an excuse for delaying and shirking its responsibility in looking into the problem of inadequate retirement protection for the elderly.

25. In the light of the shortcomings of the three-pillar model for retirement protection and the ageing population, members took a strong view that there was an imminent need for the Administration to draw up a concrete plan for providing retirement protection to all people in Hong Kong. Given that the proposal for implementing universal retirement protection had been discussed at length in the community and Members belonging to different political groups had expressed support for the proposal, the Administration should kick start the study on the various proposed options without further delay.

26. The Administration stressed that it did not rule out the feasibility of studying the proposal for implementing universal retirement protection and was open-minded on any viable and sustainable options. As the CPU study was ongoing, it would seriously consider the findings and projections of the study and other pertinent factors such as how to ensure the sustainable development of the social security system, in deciding the future course of action.

27. Given that the Government considered it unnecessary to set up an inter-departmental task force on the subject of universal retirement

protection, members agreed that the Panel should appoint a subcommittee to follow up the matter. The approval of the House Committee was obtained at its meeting on 21 January 2011 for the activation of the Subcommittee on Retirement Protection in late April 2011.

Relevant papers

28. A list of the relevant papers on the Legislative Council website is in the **Appendix**.

Council Business Division 2
Legislative Council Secretariat
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**Relevant papers on
retirement protection in Hong Kong**

Committee	Date of meeting	Paper
Panel on Welfare Services	13 June 2005 (Item IV)	Agenda Minutes
Legislative Council	26 April 2006	Official Record of Proceedings Pages 160 - 239 (Motion)
Panel on Welfare Services	8 June 2006 (Item I)	Agenda Minutes
Panel on Welfare Services	20 October 2010 (Item I)	Agenda Minutes
Panel on Welfare Services	8 November 2010 (Item IV)	Agenda Minutes
Finance Committee	17 December 2010 (Item 3)	Agenda
Panel on Welfare Services	18 December 2010 (Item I)	Agenda
Panel on Welfare Services	10 January 2011 (Item VI)	Agenda Minutes
House Committee	21 January 2011 (Item VII)	Agenda Minutes