

Panel on Welfare Services
Subcommittee on Retirement Protection

Key features of proposed retirement protection models considered by the Subcommittee

	Professional Commons¹	Alliance for Universal Pensions²	Democratic Alliance for the Betterment and Progress in Hong Kong³	Hong Kong Social Security Society⁴	Civic Party⁵
Scheme	Universal Old Age Pension Scheme	Universal Old Age Pension Scheme under the Universal Retirement Protection Scheme	Three-tier Retirement Protection Old Age Pension Scheme	Universal Old Age Pension Scheme (first tier of the model)	Universal Retirement Protection Fund
Fund management	Government	Government or private sector	Government	Government	The Hong Kong Monetary Authority
Coverage	Hong Kong permanent residents aged 65 or above	Hong Kong residents aged 65 or above	Hong Kong permanent residents aged 65 or above who have resided in Hong Kong for a continuous period of not less than seven years * * <i>including those who choose to retire permanently on the Mainland</i>	Hong Kong permanent residents aged 65 or above	Elders aged over 65
Eligibility requirements	Non-means-tested	Non-means-tested	<u>First tier</u> Non-means-tested <u>Second tier</u> <i>(application on individual basis)</i> Applicant must pass both the income and assets tests (a monthly income	Non-means-tested	Non-means-tested

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			<p>limit of \$6,450 and an asset limit of \$177,000 excluding the value of the owner-occupied residential property, i.e. same as the income and asset limits for Normal Old Age Allowance as in January 2012)</p> <p><u>Third tier</u> <i>(application on individual basis)</i> Applicant must pass both the income and assets tests (a monthly income limit of \$6,450 and an asset limit of \$88,500 excluding the value of the owner-occupied residential property, i.e. half of the asset limit for the second tier)</p>		
Payment amount/rate (per month)	\$3,000 (as at 2012) (to be adjusted annually according to the changes in inflation for the preceding year as reflected in the Consumer Price Index but no downward adjustment will be made)	\$3,000	<p><u>First tier</u> \$1,035 (i.e. same as the current OAA rate, to be adjusted regularly according to the movement of the Social Security Assistance Index of Prices)</p>	<p>A wage replacement ratio of 20% against the average monthly wage of Hong Kong for the preceding year *</p> <p><i>*Taking 2006 as the base year and assuming a 2% annual rate of increase in nominal wage, it is estimated that the</i></p>	\$3,000 (in real terms)

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	in times of deflation)		<u>Second tier</u> \$2,070 (two times of the payment for the first tier) <u>Third tier</u> \$3,105 (three times of the payment for the first tier)	<i>payment should be \$3,800 in 2014 upon the implementation of the scheme</i>	
Contribution	Tripartite contributions	Tripartite contributions	Non-contributory	Tripartite contributions	Tripartite contributions
Employer	2.5% of employee's monthly income (subject to the maximum income level of \$50,000)	50% of the existing mandatory MPF contributions (i.e. 2.5% of employee's monthly income) (subject to the maximum income level of \$30,000) Tax revenue from the increase in the profits tax rates (<i>see the "Refinement to the existing tax regime" below</i>)	N/A	6% of employee's monthly income	60% of the existing mandatory MPF contributions (i.e. 3% of employee's monthly income) (subject to the maximum income level of \$25,000)
Employee	2.5% of monthly income (subject to the maximum income level of \$50,000 and the minimum income level of \$6,500)	50% of the existing mandatory MPF contributions (i.e. 2.5% of employee's monthly income) (subject to the maximum income level of \$30,000 and the minimum income level of \$6,500)	N/A	<u>Employees</u> 2% of monthly income (subject to the minimum income level of 50% of the average monthly wage)	60% of the existing mandatory MPF contributions (i.e. 3% of employee's monthly income) (subject to the maximum income level of \$25,000 and the minimum income level of \$6,500)

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				<u>Self-employed persons</u> 4% of monthly income (subject to the minimum income level of earning two times or above of the average monthly wage)	
Government	<p>Transfer of recurrent funding for old age Comprehensive Social Security Assistance ("CSSA") (standard rate) and Old Age Allowance ("OAA") payments</p> <p>A one-off capital injection of \$50 billion for the first five years and an injection of \$25 billion in real terms every five years thereafter</p>	<p>Transfer of recurrent funding for the CSSA payments (standard rate) payable to the elderly recipients and the OAA payments into the Scheme</p> <p>A one-off capital injection of \$50 billion as a start-up fund</p>	Using 2009-2010 as the base year, an additional recurrent funding of about \$9.2 billion on top of the recurrent funding for OAA	4% of employee's income	<p>Transfer of the CSSA payments below the level of \$3,000 payable to the elderly recipients and the OAA payments into the Fund</p> <p>A one-off injection of \$50 billion into the Fund as seed money and an injection of \$50 billion (in real terms) every five years thereafter</p>
Refinement to the existing tax regime	Nil	Increase the profits tax rates by 1.9% for companies with annual profit exceeding \$10 million to derive tax revenue for injection into the Scheme	Nil	Nil	Injection into the Fund should be supported by government revenue. Other financing options such as increasing profit tax rates for companies with annual profit exceeding a prescribed limit can be considered as and when necessary,

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					subject to a wide public consultation
Refinement to the existing social security system	CSSA payments (standard rate) for the elderly recipients and OAA payments are replaced by the Universal Old Age Pension Scheme payments	CSSA payments (standard rate) for the elderly recipients and OAA payments are replaced by the Universal Retirement Protection Scheme payments	OAA Scheme is replaced by the Old Age Pension Scheme CSSA Scheme remains unchanged but eligible elders have to opt to apply for CSSA or the Old Age Pension Eligible disabled elders can continue to receive disability allowance under the Social Security Allowance Scheme	CSSA payments for the elderly recipients and OAA payments are replaced by the Universal Old Age Pension Scheme payments	Nil
Refinement to the existing MPF system	Mandatory contributions from employers and employees to the MPF system remain unchanged. Proposal to refine the MPF system as follows - - Claims for payment of accrued benefits be changed to monthly payment	Mandatory contributions from employers and employees under the MPF system be refined as 2.5% of the employees' relevant monthly income (subject to the maximum income level of \$25,000 and the minimum income level of \$6,500)	MPF system remains unchanged * * <i>the accrued benefits will be treated as assets under the asset test of the Old Age Pension Scheme</i>	MPF be refined as a Central Provident Fund administered by the Government (second tier of the model) which all Hong Kong permanent residents are eligible to join on a voluntary basis - - Minimum guaranteed real rate of return of 2%	Mandatory contributions from employers and employees under the MPF system be refined as 2% of the employees' relevant monthly income (subject to the maximum income level of \$25,000 and the minimum income level of \$6,500) Employees should be allowed to transfer the

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	<ul style="list-style-type: none"> - Protect the accrued benefits from being eroded by the high management fees (such as provision of low-risk investment products by the Government) - Employers will not be allowed to use the accrued benefits to offset the severance payments or long service payments - The trustees should be required to report any delay in contribution from employers 			<ul style="list-style-type: none"> - Allow early withdrawal of the accrued benefits for payment of medical treatment if the annual personal/household medical expenditure reached the level of \$20,000 or above - Employers will not be allowed to use the accrued benefits to offset the severance payments or long service payments - Matching contribution from employer (subject to a maximum rate of 5% of employee's income) - Contributions subject to a cap of eight times of the average wage - Employees are free to choose between the Government and insurance companies for fund management 	<p>accrued benefits derived from the employers' mandatory contributions to MPF schemes of their own choice</p>

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Compliance with World Bank's five-pillar model⁶	First pillar	First pillar	Zero pillar	First and third pillars	First pillar
Sustainability of the Scheme	A respective predicted surplus of \$310.1 billion and \$404 billion can be attained for 2023 and 2060 if the Scheme is implemented in 2012	A predicted surplus of \$116.7 billion can be attained for 2039. It is projected that a surplus can still be attained by 2060	The Government should be able to bear the additional recurrent expenditure arising from the introduction of the Scheme	Still sustains in 2039 when the population aged 65 or above will increase to 2.49 million	A predicted surplus of \$309.7 billion can be attained for 2060
Assumptions	<ul style="list-style-type: none"> - Population projection for 2011-2039 based on the "Hong Kong Population Projection 2010-2039" by the Census and Statistics Department ("C&SD") - Population projection for 2040-2060 based on The University of Hong Kong's population database - Labour force participation rate remains at the existing level - Unemployment rate of 5.6%, 5.1%, 4.6%, 	<ul style="list-style-type: none"> - Population projection based on the "Hong Kong Population Projection 2010-2039" by C&SD - Labour force participation rate remains at the existing level - An annual rate of wage increase of 2% in real terms - An annualised rate of return of 2% in real terms 	<ul style="list-style-type: none"> - All the 925 900 elders aged 65 or above (as at July 2011) will apply for the Old Age Pension or the CSSA Scheme. Among them, 30% will receive the Old Age Pension (half of these elders will receive the second-tier payments and the other half will receive the third-tier payments) - Elders currently receiving CSSA will not opt for the Old Age Pension Scheme 	<ul style="list-style-type: none"> - Population projection based on the "Hong Kong Population Projection 2010-2039" by C&SD - A labour force participation rate of 60% - An unemployment rate of 4% - Rate of wage increase equals to the inflation rate 	<ul style="list-style-type: none"> - The Scheme was implemented in 2011 - Projected yearly inflation rates for 2012-2016 based on Government's projection - A yearly inflation rate of 3.1% for 2017-2021, 3.9% for 2022-2026, 4.3% for 2027-2031, and 3.5% for 2032 and beyond - Projected unemployment rates for 2013-2016 based on International Monetary Fund's projection

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<p>4.1% and 3.6% for 2012, 2013, 2014, 2015 and 2016 respectively and of 4.5% for 2017-2060</p> <ul style="list-style-type: none"> - An annual rate of wage increase of 1% in real terms - An annual return rate of 4.9% (based on the average investment return rate of the Exchange Fund from 2001 to June 2010) - Proportion of elders applying for CSSA and OAA remains at the existing level 				<ul style="list-style-type: none"> - An unemployment rate of 4.2% for 2017-2021 and 4.5% for 2022 and beyond - An annual rate of wage increase of 1% in real terms - An annual return rate of 4.9% (based on the average investment return rate of the Exchange Fund from 2004 to 2010)

¹ Please refer to LC Paper No. CB(2)149/11-12(01) for details of the Professional Commons' proposal and the assumptions

² Please refer to LC Paper No. CB(2)367/11-12(01) for details of the Alliance for Universal Pensions' proposal and the assumptions

³ Please refer to LC Paper No. CB(2)822/11-12(01) for details of the Democratic Alliance for the Betterment and Progress in Hong Kong's proposal and the assumptions

⁴ Please refer to LC Paper No. CB(2)1081/11-12(01) for details of the Hong Kong Social Security Society's proposal and the assumptions

⁵ Please refer to LC Paper No. CB(2)1371/11-12(01) for details of the Civic Party's proposal and the assumptions

⁶ The five pillars promoted by the World Bank are: Zero pillar - a basic or social security system which may be means-tested, financed by the Government; Pillar 1 - a mandatory, non-contributory and publicly managed defined-benefit system; Pillar II - a mandatory, contributory and privately managed defined-contribution system; Pillar III - voluntary occupational or personal savings; and Pillar IV - informal income support involving a broad spectrum of measures other than financial support