

Universal Old Age Pension Scheme

The Professional Commons
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Rundown

- Framework and components of PC's proposal on Universal Old Age Pension (OAP) Scheme
- Projection assumptions and calculation
- FAQs and response

Background

- Ageing population
 - 925 400 (end-2010) → 2.49 million (2039)
 - 13%(x2.69 times) → 28% of total population
- Elderly Dependency Ratio
 - 172 → 452 per 1000 adults aged 15 - 64
- Retirement Protection in HK: Far from satisfactory

CSSA and OAA –

1st Pillar (HK)/Zero Pillar (World Bank)

- Sustainability of Old Aged CSSA in doubt
 - Poor elders 1 (HKCSS survey, Oct 2011)
- 280 000 (32.5%;) → 809 250? (2039)
 - Poor elders 2
- No income: 54 000 persons (4.8%; mid-08; GHS)
- CSSA recipients: 170 347 persons (15.1%; end-08; LCQ)
 - CSSA (Standard Rate) and OAA expenditure (2009-10)
- \$11.9 billion (30% of welfare expenditure)

CSSA and OAA – 1st Pillar (HK)/Zero Pillar (World Bank)

- Insulting requirement for CSSA
 - A statement on non-provision of financial support by their family members
- OAA (\$1,035/mth)
 - Growing number of poor elders rely on OAA to support their living

MPF-

2nd Pillar (HK, World Bank)

- No protection for home carers and non-working pop
- Inadequate pension, particularly the low income group
 - Substitution rate (30 yrs of contribution): 20% of monthly income
- Erosion of MPF accrued benefits
 - High management fee
 - Offsetting of long service and severance payments
- Excessive fluctuation in return (Annualized Internal Rate of Return)
 - 5.1% (1.12.2000 – 30.6.2011)
 - 3 best yrs: 30.1% (2009/10), 22% (2003/04), 12.4% (2006/07)
 - 3 worst yrs: -25.9% (2008/09), -10.7% (2002/03), -0.5%, -12.3% (2 Q, 3Q 2011)

MPF-

2nd Pillar (HK, World Bank)



- Annualized Internal Rate of Return: 5.1% (12.2000 – 6.2011)
- Most funds can't get 5.1% return

Type of Approved Constituent Funds	Past 1 year	Past 3 years	Past 5 years	Since 12.2000
Mixed Assets Fund	18.3%	2.1%	4.5%	4.8%
Equity Fund	18.6%	3.2%	6.9%	5.4%
MPF Conservative Fund	0.0%	0.2%	1.1%	1.1%
Guaranteed Fund	2.6%	1.4%	2.3%	1.6%
Bond Fund	6.3%	4.4%	4.7%	4.0%
Money Market Fund and Others	-0.5%	-0.6%	0.6%	0.8%
Annualized Composite CPI % Change	5.6%	2.6%	3.0%	1.0%

Remarks: Return figures are net of fees and charges.

Sources: Table III.5.2, MPF Schemes Statistical Digest, June 2011



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Our OAP Scheme (additional to MPF Scheme)

Vision

- A caring society with retirement protection for all
- A fairer mechanism with wealthier people contributing more
- A sustainable scheme that the community finds affordable

Pension Levels

MPF (\$2,200/mth)

Personal Saving +
Family Support

OAP (\$3,000/mth)

CSSA
supplements +
special grants

The Under-
privileged

Home Carers and
Non-working
Population

Working
Population

MPF Pension:

- 20% of monthly medium income
- \$11,000/mthx20%=\$2,200/mth

Sources: Nelson Chow, WONG Hung

Details

1. Eligibility:

- All Hong Kong permanent residents aged 65 or above

2. Pension rate

- \$3,000 (2012)
 - 112% of CSSA standard rate (2011)
 - Inflation-adjusted in subsequent years
- Adequate and affordable

3. Tripartite contribution

- Employees, Employers, The Government

Details

4. Contribution rate

– Employee

- 2.5% of salary
- Exemption: \leq \$6,500/mth
- Maximum chargeable income: \$50,000/mth

– Employer

- 2.5% of employees' salaries
- Maximum chargeable income: \$50,000/mth

– Government

- CSSA Standard Rate, OAA
- \$50 billion/5 yrs (first 5yrs), \$25 billion/5 yrs (following yrs; inflation adjusted)

Details

5. Fair Share in Contribution (2012-2060)

- Employees (\$2,978.7 billion)
 - < \$30,000/mth: 84% working pop; 54% contribution
 - \geq \$30,000/mth: 16% working pop; 46% contribution
- Employers (\$3,065 billion)
 - = extra 1% operating cost
- The Government (\$662.5 billion)
 - capital injection other than CSSA and OAA
- Employees : Employers : The Govt
 - 4.5 : 4.6 : 1

Details

- Financial Healthiness (2012-2060)
 - 2024: -\$1.3 billion (1st year of yearly deficit)
 - 2037: \$467.6 billion (greatest amount of accrued benefits)
 - 2051: -\$45.5 billion (greatest amount of yearly deficit)
 - 2060: \$404 billion of accrued benefits

Guidelines

1. Compliance to World Bank's Multi-pillar Pension Model

World Bank Model		Hong Kong	
Pillar	Basic Elements	Pillar	Institutional Arrangement
0	Non-contributory (general social assistance)	1	CSSA
1	Mandatory (on a pay-as-you-go basis)		Proposed OAP scheme
2	Mandatory (employee's personal saving accounts)	2	MPF
3	Voluntary (individual savings)	3	Voluntary
4	Non-financial (informal support from family and other social programmes)		Non-financial

Guidelines

2. Eligibility

- Eligible for all Permanent Residents of Hong Kong

3. Affordability

- Extra contribution on top of MPF scheme
- Wealthier people contribute more
- Equal share from employers
- Minimal extra burden to the Government

Guidelines

4. Financial Sustainability

- Moderate pension rate
- Cross-generation support
- Accrued benefits from investment returns
- Early injection of government funding to generate more investment return
- Surplus budget



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Thank you!