

Legislative Council Subcommittee on Poverty

Low-income Working Family Allowance

Background

The current-term government is determined to tackle the poverty problem. Our poverty alleviation policy is to encourage young people and adults to become self-reliant through employment, while putting in place a reasonable and sustainable social security and welfare system to help those who cannot provide for themselves. In his 2014 Policy Address, the Chief Executive proposed to implement a Low-income Working Family Allowance (LIFA) to provide financial assistance to working poor households not receiving Comprehensive Social Security Assistance (CSSA).

Guiding Principles

2. The proposed LIFA is premised on two major considerations which are:
 - (a) Despite the protection offered by Statutory Minimum Wage, many grassroots workers, as the sole breadwinner of families, still bear a heavy financial burden. Providing them with suitable assistance and encouraging them to remain employed will help keep them from falling into the CSSA safety net; and
 - (b) Special attention must be paid to the children and youths of these families. Offering them appropriate support promotes upward mobility and breaks the vicious cycle of inter-generational poverty.
3. The proposed LIFA is also built on the following three key principles –

- (a) A basic allowance will be granted on a family basis and tied to employment and working hours to encourage self-reliance. More allowance will be granted to those who work more. Families with eligible children and young members will receive additional allowance;
- (b) To ensure that limited public resources would be put on those households most in need, an income test and an asset test will be introduced for LIFA; and
- (c) The structure of LIFA would be as simple and easy to understand as possible, with appropriate safeguards against abuse to ensure prudent use of public resources.

Key Parameters

4. We have previously presented the key parameters of LIFA to the Subcommittee on Poverty vide LC paper No. CB(2)768/13-14(01). Briefly, eligible families, which are not receiving CSSA, must have two or more members, with at least one being a working member. LIFA would provide a Basic Allowance (\$600 per month) to each of the eligible families and a Child Allowance (\$800 per month) for each eligible child¹ in these families. This would be based on the families' passage of the asset test (which would largely follow the asset limit of public rental housing) and the income test (the limit of which would be set at 50% of the Median Monthly Domestic Household Income (MMDHI)), with also the applicant meeting the requirement of working at least 144 hours per month. To recognise efforts in working more, it is also proposed that an eligible family may be paid a higher Basic Allowance (\$1,000 per month) if the applicant works 208 hours or more a month. To prevent poverty, families meeting all the above qualifying criteria but with a household income exceeding 50% of MMDHI but not higher than 60% of MMDHI would be given a half Basic Allowance (\$300 or \$500 per month) and a half Child Allowance (\$400 per month). A summary of the proposed key parameters of LIFA is at Annex.

5. Based on the above parameters, the total allowance amount to be paid under the LIFA scheme is estimated to cost around \$3 billion per year. We estimate that over 200 000 low-income families (involving

¹ An eligible child has to be aged below 15 or aged between 15 and 21 receiving full-time education (but not post-secondary education).

710 000 persons) could benefit from the scheme.

Next Step

6. Since the publication of the Policy Address in January 2014, we have been listening to views of the public and stakeholders on the proposed LIFA. We are finalising the key parameters of the scheme. We will seek necessary funding approval from the Legislative Council Finance Committee in due course with a view to implementing the scheme in 2015.

Advice Sought

7. Members are invited to note and comment on the content of this paper.

Labour and Welfare Bureau
May 2014

**Low-Income Working Family Allowance (LIFA)
Key Parameters**

Eligibility

- Applicant families must meet the income limit of the scheme;
- Applicant families must meet the asset limit of the scheme which largely follows the asset limit of public rental housing;
- Applicants must meet the working hour requirement of the scheme; and
- Size of the applicant families must be two or above.

Design of the Allowance

- The scheme will be a two-tier system based on working hours and family income respectively. If the income of a family is equivalent to or below 50% of the median monthly domestic household income (MMDHI) and the applicant is a working member who meets the working hour threshold, this family will be eligible for the Basic Allowance of \$600 per month (if the applicant works at least 144 hours but less than 208 hours per month) or the higher Basic Allowance of \$1,000 per month (if the applicant works at least 208 hours per month).
- If the applicant family has eligible children, and the household income is at or below 50% of MMDHI, the family will receive a monthly child allowance of \$800 for each eligible child.
- The two-tiered working hour threshold for single-parents (who serve as the LIFA applicants) would be lower (36 hours and 72 hours).
- To help prevent poverty, low-income working families with a monthly income slightly higher than 50% of MMDHI will receive half-rate of the Basic Allowance (\$300 or \$500 depending on the working hours) and Child Allowance (\$400).