



樂施會
OXFAM
Hong Kong

Report on Hong Kong's Working Poor (2010 – 2014)

1. Introduction

In 2011, Hong Kong's Gini Coefficient stood at 0.537 – the highest among the world's developed economies: the United States, the United Kingdom, Australia, Canada, Singapore and Japan¹. Hong Kong is facing serious inequality problems and life for people living in poverty is difficult despite the fact that they are working hard. Although statutory minimum wage was introduced in 2010, the number of working poor families rose from around 170,000 in 2010 to almost 190,000 in 2014.

In view of this, Oxfam Hong Kong (OHK) has proposed various poverty alleviation measures to the HKSAR Government. By reviewing statistics from the Government and other institutes, this report aims to reveal the facts about inequality, poverty, and especially the issues the working poor faced in Hong Kong between 2010 and 2014.

The number of working poor families has continually increased and many of them have a household income of less than the average Comprehensive Social Security Assistance (CSSA) payment of the corresponding household size. While the Mandatory Provident Fund (MPF) provides employees with retirement protection, the offsetting mechanism of severance payments (SP) and long service payments (LSP) greatly reduces the amount employees have in their MPF accounts, and therefore fails to provide employees with retirement protection.

We urge the Government to first cancel the MPF offset mechanism in order to protect all of its contracted and outsourced employees, take steps to stop this offset mechanism and review minimum wage annually in order to keep wages on par with inflation.

¹ US: 0.408 (2013), UK: 0.36 (2013), Australia: 0.34 (2003), Canada: 0.326 (2013), Singapore: 0.463 (2013), Japan: 0.32 (2008)

2. Research methodology and limitation

Data in this report was taken from the General Household Survey, which was conducted by the Census and Statistics Department between 2010 and 2014.

Working poor families are defined as households that have at least one employed person (excluding foreign domestic helpers) and earn a monthly household income of less than half of the median income for all households of the corresponding household size.

3. Major findings

The results of the study show a worryingly wide gap between rich and poor in Hong Kong. Currently, the city's richest 1% owns more than half of Hong Kong's wealth, while the income of the richest households is 19 times the median income of poor households. Currently, the population living in these households stands at over 640,000. Furthermore, over the past five years, the number of working poor households has increased by 10%; of which more than half make monthly incomes below the average CSSA level.

3.1 Inequality in Hong Kong

3.1.1 The wealthiest 1% in Hong Kong owns more than half of Hong Kong's total wealth

According to Credit Suisseⁱ, the wealthiest 1% in Hong Kong owns 52.6% of Hong Kong's total wealth, whereas the wealthiest 10% owns 77.5% of Hong Kong's wealth – the highest proportion among developed regions globally.

3.1.2 The collective wealth of the richest 25 people in Hong Kong is equivalent to the Government's reserves

According to Forbesⁱⁱ, the wealthiest 50 people in Hong Kong have a total wealth of HK\$1.85 trillion (as of January 2015), which is equivalent to having 1.23 times what the Government has in its reserve as of April 2015 – HK\$1.5 trillionⁱⁱⁱ; the wealthiest 25 people in Hong Kong hold HK\$1.51 trillion – as much wealth as what the Government has in its reserves.

3.1.3 Wealthy families earn 19 times more than Hong Kong's poor

In 2014, the median monthly household income of the top decile was HK\$95,000, while that of the lowest decile was only HK\$5,000. In other words, the poorest

decile would need to work 1.58 years to earn as much as what the wealthiest earn in a month (see Table 1).

	2010	2011	2012	2013	2014
Decile	Median monthly household income (HK\$)				
1st decile (lowest)	4,000	4,300	4,800	5,000	5,000
2nd decile	9,000	9,800	10,400	11,100	12,000
3rd decile	11,700	12,600	13,700	15,000	15,700
4th decile	14,500	15,500	17,000	18,400	19,700
5th decile	17,500	19,000	20,000	22,000	23,100
6th decile	21,000	22,500	24,500	26,400	27,900
7th decile	25,100	27,100	29,500	31,200	32,600
8th decile	33,000	35,000	37,000	40,000	40,400
9th decile	45,800	49,300	50,300	55,000	57,100
10th (highest)	80,000	82,700	85,000	91,000	95,000
Overall	18,000	19,600	20,500	22,200	23,100
10th decile/1 decile	20.0	19.2	17.7	18.2	19.0

Source: Census and Statistics Department, HKSAR

3.2 Poverty trends in Hong Kong

3.2.1 More than 640,000 people live in working poor families

In 2014, there were 189,500 working poor families locally with 647,500 people living in these households. Since 2010, there has been a 10.6% increase in this number (see Table 2).

Household size	2010	2011	2012	2013	2014
1	3,800	3,400	4,200	4,800	3,800
2	23,400	25,100	27,200	31,400	30,200
3	61,000	62,900	67,200	71,700	69,300
4	59,400	61,300	63,700	63,500	62,900
5	17,800	18,000	17,000	17,600	17,000
6+	6,100	5,800	5,800	5,400	6,200
Overall	171,400	176,500	185,000	194,300	189,500

Source: Census and Statistics Department, HKSAR
*Figures are rounded to the nearest hundred

3.2.2 Employed members of poor families bear a heavy burden

In 2014, about half (49.9%) of working poor households had dependents aged 15 or under, while a quarter (25.8%) had working dependents over the age of 65. On the whole, there were 424,000 people who lived in working poor households and did not work (see Tables 3 and 4).

	2010	2011	2012	2013	2014
Working poor household that have dependents aged 15 or below (A)	88,900	92,900	94,200	95,000	94,500
Working poor households (B)	171,400	176,500	185,000	194,300	189,500
A/B %	51.9	52.6	50.9	48.9	49.9

Source: Census and Statistics Department, HKSAR

	2010	2011	2012	2013	2014
Working poor households that have dependents aged 65 or above (A)	40,200	42,800	46,500	50,800	48,800
Working poor households (B)	171,400	176,500	185,000	194,300	189,500
A/B %	23.5	24.2	25.1	26.1	25.8

Source: Census and Statistics Department, HKSAR

The employed population in working poor households is 223,500, which makes up 34.5% of the total population in the category. On average, each employed member of a working poor household must support two non-working members.

Year	Number of persons in working poor households (A)	Number of employed persons in working poor households (B)	Number of unemployed persons in working poor households (A-B)	Family support ratio* (B)/(A-B)	Employment rate (B)/(A) %
2010	597,700	194,500	403,200	0.48 = 1:2.1	32.5
2011	613,100	201,100	412,000	0.49 = 1:2.0	32.8
2012	636,000	213,500	422,500	0.51 = 1:2.0	33.6
2013	657,900	229,700	428,200	0.54 = 1:1.9	34.9
2014	647,500	223,500	424,000	0.53 = 1:1.9	34.5

Source: Census and Statistics Department, HKSAR

*A family support ratio of 1:2.0 means that every employed person in the household supports two unemployed persons.

3.2.3 A large number of working poor households live below the CSSA level

In 2014, 101,600 out of 189,500 households that had at least one employed person made a monthly income of less than the average CSSA payment for households of the corresponding size; in other words, 53.6% of working poor households were faced with this situation. However, the majority of these households, though most would qualify, do not receive CSSA. In December 2014, only 7,584 (or 7.5% of) low-income households were on CSSA, according to data from the Department of Social Welfare. (see Table 6).

	2010	2011	2012	2013	2014
Number of working poor households living on less than CSSA payments (A)	106,800	100,000	100,200	90,600	101,600
Low-income CSSA cases (December) (B)	14,407	12,319	10,339	8,891	7,584
CSSA take-up rate among working poor households (B)/(A) (%)	13.5	12.3	10.3	9.8	7.5

Source: Census and Statistics Department, HKSAR^{iv}

4. Policy review

To better protect low-income workers, the Minimum Wage Ordinance was introduced in 2010. However, despite the current biannual review system, minimum wage lags behind inflation; low-income workers from certain industries have even incurred losses because of this. Moreover, low-income families experience a greater burden when it comes to food, rent and other expenditure because of inflation, but the current minimum wage is not enough to meet these families' basic needs.

With little income, it is difficult for these workers to save up; that is why the MPF is of crucial importance to them. However, the current MPF offsetting mechanism allows employers to offset employees' SP or LSP using the accrued benefits derived from employers' contributions to employees' MPF schemes.

The Commission on Poverty (CoP) is soon to release its latest report on poverty in Hong Kong and will evaluate the effectiveness of public housing policies on alleviating poverty. Currently, the housing benefit is calculated based on the market value of public housing units. The benefit may be distorted by the instability or short term fluctuations in the property market. If rent prices soar, the market value of public housing would be overestimated. So if housing benefits are included in families' household incomes, the nominal income of these poor households would drastically increase, however, their actual disposable income will not increase proportionately. As a result, these households would seemingly be above the poverty line, but in reality, the severity of the poverty they face will not be accurately portrayed.

4.1 Statutory Minimum Wage

4.1.1 Minimum wage lags behind inflation

The Legislative Council in Hong Kong passed the Minimum Wage Ordinance in July 2010. The Minimum Wage Commission originally suggested that minimum wage should be set at HK\$28/hour (the Consumer Price Index (CPI) was 102 at that time). When the minimum wage officially took effect in May 2011, the CPI had increased by 4%, but minimum wage remained unchanged.

In May 2013, under the current biannual review system, minimum wage increased by 7.1% to HK\$30/hour, but at that point, inflation had gone up by

12.8%. Similarly, minimum wage increased by 16.1% (compared to May 2011) to HK\$32.5/hour in May 2015, although by then the accumulated inflation had gone up by 20.5%. Clearly, increases in minimum wage have never been on par with inflation (see Table 7).

Table 7: Percentage increase in CPI and minimum wage				
Date	CPI	Percentage increase in CPI compared to July 2010 (%)	Minimum wage level (HK\$/hr)	Percentage increase in minimum wage compared to July 2010 (%)
July 2010	102.0	/	28 (suggested level)	/
May 2011	106.2	4.1	28	0.0
May 2013	115.0	12.8	30	7.1
May 2015	122.9	20.5	32.5	16.1
Source: Census and Statistics Department, HKSAR				

4.1.2 Real income of low-income workers in certain industries have declined

Over the past five years, the nominal index of payroll per person in certain industries that employ a significant number of low-income workers – including the social and personal services sector, and the transportation, storage, postal and courier services industry – has seen an increase of up to 17%, but the actual index of payroll per person engaged² has decreased by 2.5% and 3% respectively. Since salary increases have been cancelled out by inflation, it has been very difficult for low-income workers to support their basic living expenses (see Tables 8 and 9).

² Real index of payroll per person engaged is obtained by deflating the nominal index by the composite consumer price index to adjust for changes in consumer prices.

Table 8: Nominal and real index of payroll of employees in social and personal service industry (2010–2014) (1st quarter in 1999 = 100)

Year	Nominal index of payroll		Real index of payroll	
	Index	Accumulated percentage change compared to 2010 (%)	Index	Accumulated percentage change compared to 2010 (%)
2010	97.2	/	94.6	/
2011	100.3	+3.2	94.7	+0.1
2012	105.6	+8.6	96.1	+1.6
2013	109.5	+12.7	95.6	+1.1
2014	110.6	+13.8	91.8	-3.0

Source: Census and Statistics Department, HKSAR^{v, vi}

Table 9: Nominal and real index of payroll of employees in transportation, storage, postal and courier services industry (2010–2014) (1st quarter in 1999 = 100)

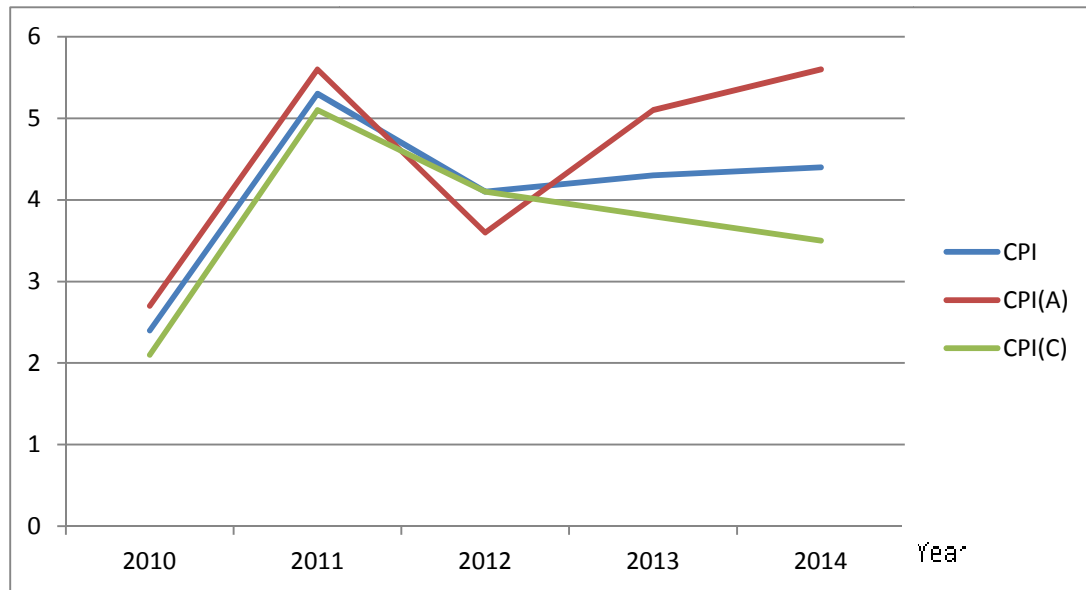
Year	Nominal index of payroll		Real index of payroll	
	Index	Accumulated percentage change compared to 2010 (%)	Index	Accumulated percentage change compared to 2010 (%)
2010	112.2	/	112	/
2011	115.7	+3.1	109.2	-2.5
2012	122.4	+9.1	111.4	-0.5
2013	128.6	+14.6	112.2	-0.2
2014	131.5	+17.2	109.2	-2.5

Source: Census and Statistics Department, HKSAR^{vii, viii}

4.1.3 Low-income families bear greater burden because of inflation

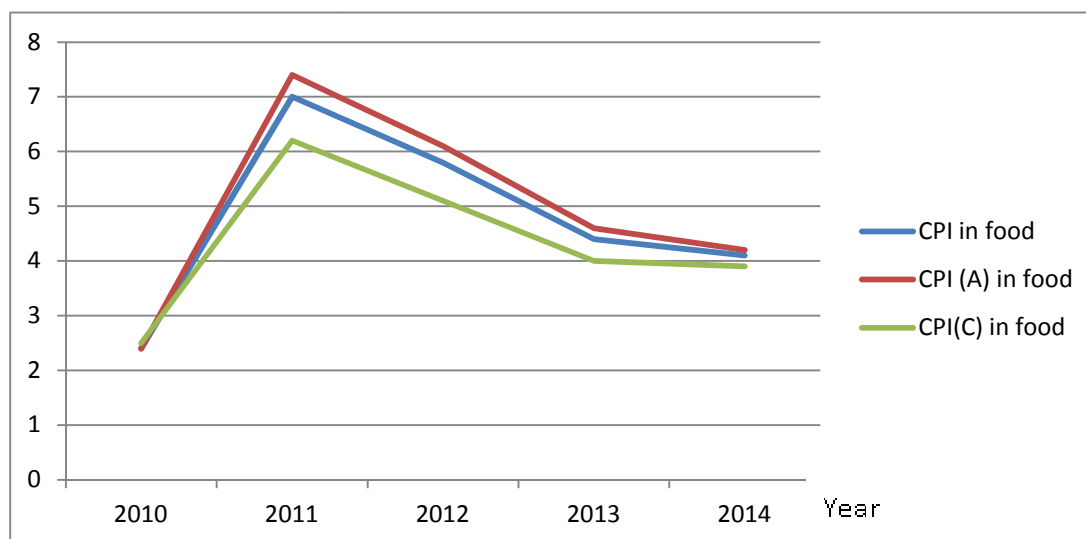
When comparing the percentage increase of the CPI, Consumer Price Index (A) (CPI(A)) and Consumer Price Index (C) (CPI(C)) between 2010 and 2014, CPI(A) showed a greater increase over CPI(C). CPI(A) increased by 5.6% in 2013, which is significantly higher than that of the CPI (4.4%) and CPI(C) (3.5%); this indicates that over the past five years, low-income families had to bear a greater burden because of inflation (see Figure 1).

Figure 1 : Percentage increase of CPI, CPI(A) and CPI(C) (2010 – 2014) (%)



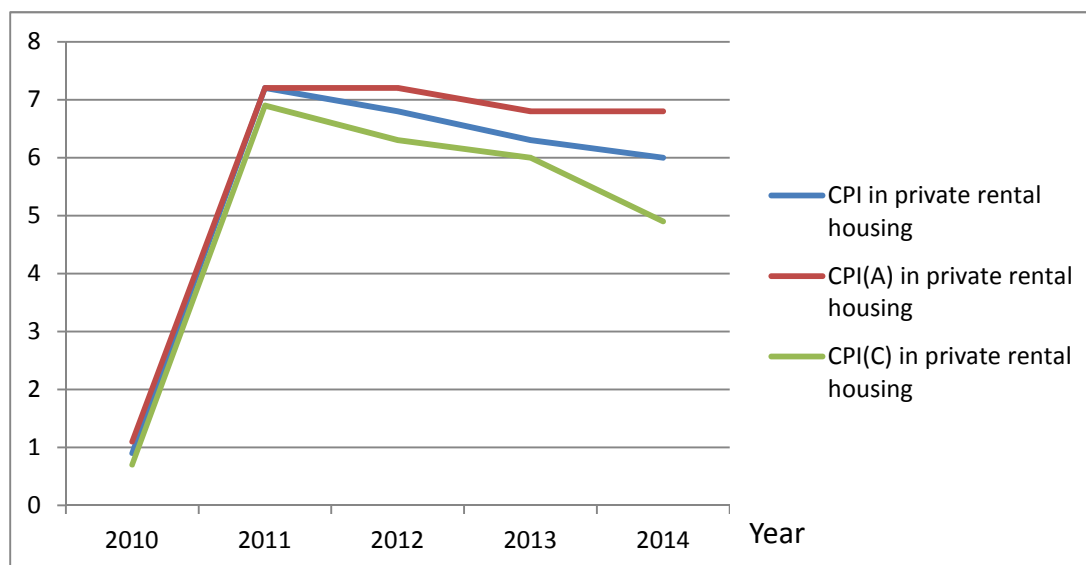
Since food and rental expenses account for over 60% of low-income families' total expenses³, food and rental inflation greatly impact these families. Examining the inflation rates of food and rental expenses show that the inflation rate of CPI(A) was higher than that of CPI and CPI(C). In 2014, CPI(A) in food and rental expenses increased by 4.2% and 6.8% respectively (see Figures 2 and 3).

Figure 2: Percentage change in food price index 2010 – 2014 (%)



³ According to the Census and Statistics Department, "2009/10 Household Expenditure Survey and the Rebasing of the Consumer Price Indices", Box 2.2, Food and Housing expenditure weights 33.68% and 32.19% in CPI(A) respectively.

Figure 3: Percentage increase in private housing rental index (2010 – 2014) (%)



This analysis is clearly indicative of the fact that low-income families are more greatly burdened by inflation, whether in terms of food, rent or general expenditure. While increased income can offset inflation, the current income level low-income families make is not enough to achieve this or support their basic needs.

4.1.4 Minimum wage fails to support basic needs

OHK believes a fair minimum wage should enable employees to support their and their families' basic needs. According to the 'Hong Kong Poverty Situation Report 2013'^{ix}, among all working households, each employed family member had to support one non-working family member (such as children and elderly persons). This 1:1 ratio is crucial in calculating minimum wage.

According to OHK's calculations, the basic cost of living for a two-person household should be HK\$9,083 in 2014^x; hence the minimum wage level should be set at HK\$35/hour in order to take this 1:1 ratio into account. Despite the increase in minimum wage to HK\$32.5/hour in May 2015, the current minimum wage level is still below OHK's suggested level. We believe the current minimum wage level fails to support workers' and their families' basic cost of living.

According to the '2014 Report on Annual Earnings and Hours Survey'^{xi}, the working population paid below OHK's suggested wage level stood at 316,900. These low-income workers worked mostly in supermarkets, convenience stores,

fast food restaurants, property management companies, as well as in the security and cleaning industries.

4.2 MPF offset mechanism harms workers' retirement protection

The MPF is important to providing employees in Hong Kong with retirement protection. However, the offsetting mechanism allows employers to offset the SP or LSP using the accrued benefits from employers' MPF contributions for employees. As a result, this greatly and negatively impacts employees' MPF benefits and thus their retirement protection.

Between 2010 and 2014, the total amount of benefits withdrawn stood at HK\$41.6 billion. A total of, 30% of this amount (HK\$12.3 billion) was used to offset SP and LSP, which was only slightly less than what employers withdrew from employees' MPF for their retirement (HK\$15.3 billion) (see Table 10).

Year	Retirement / Early retirement	Permanent departure from Hong Kong	Total incapacity	Small balance account	Death	Offsetting SP & LSP	Sub-total
2010	1,762	1,955	122	2	234	2,103	6,178
2011	1,922	1,856	106	1	247	2,332	6,463
2012	2,926	1,971	134	1	338	2,270	7,640
2013	3,976	2,646	155	1	377	2,678	9,834
2014	4,782	3,102	202	1	410	3,006	11,503
Sub-total	15,368	11,530	719	6	1,606	12,389	41,618

4.2.1 Offset mechanism negatively affects low-income workers most

Currently, employees who earn HK\$7,100 a month or less are not required to contribute to their MPF accounts; only employers are required to contribute 5% of employees' incomes. According to the '2014 Report on Annual Earnings and Hours Survey', there were 265,200 workers who were paid less than HK\$7,100 a month. This group is most negatively affected by the offset mechanism as most of employers' contributions are offset through SP or LSP. As such, their remaining MPF benefits fail to support their basic needs after retirement.

4.2.2 Outsourced workers' MPF regularly offset

Among low-income workers, outsourced workers are highly affected by the MPF

offsetting mechanism. Usually, employers are required to change their outsourced service providers every two to three years; this means employers need to layoff and re-employ workers from time to time. As a result, outsourced workers' MPFs are offset for SP or LSP, causing significant loss in benefits in their retirement protection.

As the biggest employer in Hong Kong, the Government employed over 57,000 outsourced workers in 2014⁴. Over 90% were employed by the Housing Authority, Food and Environmental Hygiene Department and Leisure and Cultural Services Department. Government outsourced workers face the same challenge as other outsourced workers as their MPF benefits are also frequently offset because of the need to regularly change service providers.

4.3 Calculation of public housing benefits should take housing affordability into account

According to the Population Census in 2011, there were 76,866 poor households living in private rental housing. Rental expenses accounted for up to 37.3% of their monthly income, while general rental expenses only accounted for 24.3% in the average household.

Since public housing can greatly impact poverty alleviation, OHK believes it should be taken into account when reviewing the effectiveness of poverty alleviation policies. However, the Government should consider whether this calculation truly reflects the housing affordability of low-income families. The Government initially suggested determining the market value of public housing units by adopting the existing method used by the Rating and Valuation Department. The housing benefit of each household would then be calculated by deducting the actual rent from the market value of the public housing unit, and the subsidy would be counted towards families' household income.

The market value of public rental units, inhabited by many poor families in Hong Kong, may be distorted by the instability or short term fluctuations in the property market. If rent prices soar, the market value of public housing would be overestimated. So if housing benefits are included in families' household incomes, the nominal income of these poor households would drastically increase, while their actual disposable income would not increase accordingly. As a result, these households would seemingly be above the poverty line, but in

⁴ http://www.fstb.gov.hk/tb/tc/docs/pr20150325c_annex_c.pdf

reality, the severity of the poverty they face would not be accurately portrayed.

5. OHK's recommendations

OHK maintains that all working people have the right to a decent basic standard of living for themselves and their families. Workers should be paid a just and fair salary for their work so that they can support themselves and their families with dignity. Since public housing plays a crucial role in poverty alleviation, OHK believes that the CoP should take it into account when reviewing the effectiveness of poverty alleviation policies. More specifically, they should consider whether this calculation truly reflects the housing affordability of low-income families. Although the implementation of minimum wage may reduce the prevalence of poverty among employed persons to a certain extent, this measure alone is not enough to lift families out of poverty. Furthermore, the MPF offsetting mechanism greatly harms low-income workers' retirement protection and increases their chances of falling into poverty after retirement.

In fact, 189,500 working households are still trapped in poverty. It is unacceptable to allow a significant portion of the population that is contributing to the workforce to remain in desperate straits, be marginalised in society, and have their futures and those of their families in jeopardy. In order to bring about change in this situation, we recommend that the Government consider the following policy suggestions:

5.1 Abolition of MPF offsetting mechanism

The Government, as the biggest employer in Hong Kong, should first abolish the MPF offsetting mechanism in order to protect all of its contracted and outsourced employees, and to be an example for other employers to follow.

The offsetting mechanism is an unjust arrangement, therefore we urge the Government to set a timetable for its cancellation, and to revise related ordinances such as the Employment Ordinance and the Mandatory Provident Fund Schemes Ordinance.

5.2 Affordability of housing should be taken into consideration when adjusting the poverty line

OHK suggests the Government to ensure affordable rent by capping it at 30% of working poor households' incomes so as to alleviate poverty through public housing. This proposal takes reference from overseas practices, such as those

from the United States, Canada, Australia and New Zealand, which have adopted a median rent-to-income ratio of 30% as a benchmark to define affordable rent that low-income families can pay relative to their income..

5.3 Review minimum wage every year to keep up with inflation

We believe minimum wage should keep up with inflation, and allow employees to support themselves and their families with dignity. According to our study in 2014, we suggested that minimum wage should be set at HK\$35/hour as this took into account the inflation rate and basic standard of living. Despite the increase to HK\$32.5/hour in May 2015, the current minimum wage level is still below OHK's suggested level. As inflation is only widening the gap between the current and suggested levels, the current minimum wage is failing to support workers' and their families' basic cost of living. We thus urge the Government to review the minimum wage annually and make sure it is adjusted such that it keeps up with inflation.

References

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- ⁱⁱ Forbes. 2014. *List of Hong Kong Billionaires*. <http://www.forbes.com/hong-kong-billionaires/list/>
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- ^{iv} Census and Statistics Department, HKSAR. 2014. *Hong Kong Monthly Digest of Statistics*. (http://www.censtatd.gov.hk/hkstat/sub/sp140_tc.jsp?productCode=B1010002)
- ^v Census and Statistics Department, HKSAR. 2015. *Table 022: Nominal Indices of Payroll per Person Engaged by industry section*, (http://www.censtatd.gov.hk/hkstat/sub/sp210_tc.jsp?tableID=022&ID=0&productType=8)
- ^{vi} Census and Statistics Department, HKSAR. 2015. *Table 023: Real Indices of Payroll per Person Engaged by industry section*, (http://www.censtatd.gov.hk/hkstat/sub/sp210_tc.jsp?tableID=023&ID=0&productType=8)
- ^{vii} Same as vi
- ^{viii} Same as vii
- ^{ix} Commission on Poverty. 2014. *Hong Kong Poverty Situation Report 2013*. (http://www.povertyrelief.gov.hk/eng/pdf/poverty_report13_rev2.pdf)
- ^x Oxfam Hong Kong. 2014. *Study on the Basic Cost of Living and the Poverty Line* (http://www.oxfam.org.hk/content/98/content_19186en.pdf)
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- ^{xii} Legislative Council Finance Committee. 2015. *Estimates of Expenditure 2015 – 2016*. (http://www.legco.gov.hk/yr14-15/chinese/fc/fc/w_q/fstb-fs-c.pdf)