

**Legislative Council Panel on Welfare Services
Follow-up to the special meeting on 22 October 2012**

Old Age Living Allowance

Purpose

This note provides information in response to the matters for follow up arising from the special meeting of the Panel on Welfare Services on 22 October 2012.

Long-term estimated expenditure on related social security measures *[In response to item (a) of the letter from the Legislative Council (LegCo) Secretariat]*

2. The Social Welfare Department (SWD) cannot realistically project the number of, and expenditure on, old age cases under the Comprehensive Social Security Assistance (CSSA) Scheme in the long term, since the take-up rates and levels of assistance for CSSA cases are sensitive to a number of unforeseeable socio-economic factors (including the economic performance of Hong Kong (HK), wage trends and their impact on the income and asset of CSSA families, etc.).

3. As regards the Social Security Allowance (SSA) Scheme, SWD estimates that after the implementation of Old Age Living Allowance (OALA), all existing Normal Old Age Allowance (OAA) recipients, as well as some existing Higher OAA recipients and Normal Disability Allowance (DA) recipients, will switch to receive OALA. Assuming that in future the same proportion of our elderly population will receive OALA, the estimated expenditures (in 2012 prices) on the different types of allowances under the SSA Scheme from 2012 to 2041 after OALA is introduced will be as follows:

Year	Estimated number of elders aged 65 or above	Estimated total allowance expenditure				
		Higher OAA for elders aged 70 or above (a)	Normal DA for elders aged 65 or above (b)	Higher DA for elders aged 65 or above (c)	OALA for elders aged 65 or above based on the Government's proposal (d)	All allowances under the SSA Scheme (e)=(a)+(b)+(c)+(d)
2012 (in full-year terms)	0.98 million	\$1.2 billion	\$0.2 billion	\$0.3 billion	\$12.7 billion ⁽¹⁾	\$14.4 billion
2017	1.21 million	\$1.3 billion	\$0.2 billion	\$0.7 billion	\$15.6 billion	\$17.8 billion
2022	1.52 million	\$1.7 billion	\$0.3 billion	\$0.7 billion	\$19.5 billion	\$22.2 billion
2027	1.88 million	\$2.1 billion	\$0.3 billion	\$1.0 billion	\$24.0 billion	\$27.4 billion
2032	2.21 million	\$2.6 billion	\$0.3 billion	\$1.0 billion	\$28.2 billion	\$32.1 billion
2037	2.44 million	\$3.0 billion	\$0.3 billion	\$1.0 billion	\$31.2 billion	\$35.5 billion
2041	2.56 million	\$3.3 billion	\$0.5 billion	\$1.3 billion	\$32.7 billion	\$37.8 billion

(1) We estimate that all 80 000 existing Normal OAA recipients, about 80% of the existing Higher OAA recipients (which amounts to about 360 000 persons) and about 80% of the existing Normal DA recipients aged 65 or above (which amounts to about 40 000 persons) will receive OALA in the first year. Hence, the estimated expenditure on OALA payment is \$12.7 billion [(\$2,200 x 12 months x 480 000 persons)].

Long-term financial implications of OALA based on different eligibility criteria, and the sustainability of the Government's proposal [In response to items (b), (f) and (h) of the letter]

4. SWD does not have information on the financial situation of elders who have never received Normal OAA. It is therefore difficult to assess the additional expenditure on OALA payment if the asset limit is to be relaxed to different extents. However, assuming that the income and asset requirements to be met by OALA applicants are to be lifted for elders aged 70 or above, or even for those aged 65 or above, the estimated maximum additional expenditures on OALA payment will be as follows:

Year	Estimated number of elders aged 70 or above	Estimated number of elders aged 65 or above	Estimated additional allowance expenditure based on the Government's proposal (a)	Estimated additional allowance expenditure if there is no income and asset declaration for elders aged 70 or above (compared with (a)) (b)	Estimated additional allowance expenditure if there is no income and asset declaration for elders aged 65 or above (compared with (a)) (c)
2012 (in full-year terms)	0.72 million	0.98 million	\$6.2 billion ⁽¹⁾	\$9.9 billion (+\$3.7 billion ⁽²⁾ / +60%)	\$13.6 billion (+\$7.4 billion ⁽³⁾ / +119%)
2017 ⁽⁴⁾	0.80 million	1.21 million	\$7.7 billion	\$11.8 billion (+\$4.1 billion / +53%)	\$16.8 billion (+\$9.1 billion / +118%)
2022	1.01 million	1.52 million	\$9.6 billion	\$14.6 billion (+\$5.0 billion / +52%)	\$21.0 billion (+\$11.4 billion / +119%)
2027	1.29 million	1.88 million	\$11.9 billion	\$18.4 billion (+\$6.5 billion / +55%)	\$26.1 billion (+\$14.2 billion / +119%)
2032	1.62 million	2.21 million	\$13.9 billion	\$22.0 billion (+\$8.1 billion / +58%)	\$30.7 billion (+\$16.8 billion / +121%)
2037	1.89 million	2.44 million	\$15.5 billion	\$25.1 billion (+\$9.6 billion / +62%)	\$34.1 billion (+\$18.6 billion / +120%)
2041	2.04 million	2.56 million	\$16.2 billion	\$26.9 billion (+\$10.7 billion / +66%)	\$35.1 billion (+\$18.9 billion / +117%)

- (1) We estimate that all 80 000 existing Normal OAA recipients, about 80% of the existing Higher OAA recipients (which amounts to about 360 000 persons) and about 80% of the existing Normal DA recipients aged 65 or above (which amounts to about 40 000 persons) will receive OALA in the first year. Hence, the estimated additional expenditure on OALA payment is \$6.2 billion [(\$2,200 - \$1,090) x 12 months x 80 000 persons + (\$2,200 - \$1,090) x 12 months x 360 000 persons + (\$2,200 - \$1,395) x 12 months x 40 000 persons].
- (2) If the means test for elders aged 70 or above is lifted, we estimate that on top of the OALA recipients in (1) above, the remaining 20% of the existing Higher OAA recipients (which amounts to about 90 000 persons), the remaining 20% of the existing Normal DA recipients aged 70 or above (which amounts to about 10 000 persons) and 90 000 elders aged 70 or above who are not receiving any social security benefits may also receive OALA. Hence, compared with the Government's proposal, the estimated additional expenditure on OALA payment will increase by \$3.7 billion [(\$2,200 - \$1,090) x 12 months x 90 000 persons + (\$2,200 - \$1,395) x 12 months x 10 000 persons + \$2,200 x 12 months x 90 000 persons].
- (3) If the means test for elders aged 65 or above is lifted, we estimate that on top of the OALA recipients in (1) above, the remaining 20% of the existing Higher OAA recipients (which amounts to about 90 000 persons), the remaining 20% of the existing Normal DA recipients aged 65 or above (which amounts to about 10 000 persons) and 230 000 elders aged 65 or above who are not receiving any social security benefits may also receive OALA. Hence, compared with the Government's proposal, the estimated additional expenditure on OALA payment will increase by \$7.4 billion [(\$2,200 - \$1,090) x

12 months x 90 000 persons + (\$2,200 - \$1,395) x 12 months x 10 000 persons + \$2,200 x 12 months x 230 000 persons].

- (4) Based on the Government's proposal, about 80 000 existing Normal OAA recipients (about 30% of the population aged 65 – 69), about 360 000 existing Higher OAA recipients (about 50% of the population aged 70 or above) and about 40 000 existing Normal DA recipients aged 65 or above (about 4% of the population aged 65 or above) will switch to receive OALA in 2012. It is assumed in our projection that the same proportions of the population will receive OALA in future.

5. As shown in the table above, the annual additional expenditures resulting from removal of the means declaration requirement for elders reaching the age of 65 or 70 will be more than double and 50-60% higher than those of the Government's proposal respectively. The \$16.2 billion additional expenditure on OALA payment, expected to come up in 2041 based on the Government's proposal, may be advanced by more than 24 years to before 2017 at the earliest.

6. Population projections of HK by age and sex are usually released by the Census and Statistics Department (C&SD) at intervals of two to three years: one following each population census or by-census, plus an update two to three years later if the analysis of the latest data so justifies. The latest round of the population projections was released in July 2012. Based on the results of the 2011 Population Census, C&SD has updated the projections covering the period from 2012 to 2041.¹ The period of our financial implication projections for OALA is in line with the above population projection period.

Reasons for certain differences between the eligibility criteria for OALA and the existing OAA *[In response to item (c) of the letter]*

7. OALA aims at alleviating poverty and supplementing the living expenses of HK elders aged 65 or above who are in financial need. As such, its applicants must meet income and asset requirements. OAA aims at helping HK residents aged 65 or above meet special needs arising from old age, and is not meant for resolving elders' financial difficulties. It is therefore largely non-means-tested. After the implementation of OALA, the non-means-tested form of OAA (i.e. Higher OAA) will still be provided to elders aged 70 or above.

8. Under the existing SSA Scheme, applicants for OAA and DA must satisfy, inter alia, the one-year continuous residence (OYCR) rule which requires the applicant to have resided in HK continuously for at least one year

¹ Having regard to the residency and mobility patterns of the HK population, and since there would be unforeseeable changes and developments in future, C&SD considers it more appropriate to constantly roll forward and update the population projections to take into account latest developments for long term planning purpose, than to extend the population projection period.

immediately before submitting the application. The OYCR rule will also apply to OALA and the Guangdong (GD) Scheme which will be implemented in the second half of 2013.

9. Applying the OYCR rule to the GD Scheme means that a substantial number of HK elders who have already settled in GD would need to come back to stay in HK for one year in order to be eligible. The decision of these elders to move to GD some time ago has made it difficult for them to satisfy the OYCR rule now even though a GD Scheme, which is meant precisely to facilitate HK elders' residence in GD, will now be available. We fully understand their difficulties and sympathise with them. We will therefore put in place a special one-off arrangement at the initial stage of implementing the GD Scheme to allow elders who satisfy all other eligibility criteria, except the OYCR rule, to benefit from the GD Scheme without having to first return to stay in HK. The special one-off arrangement will only apply in the first year of the GD Scheme. Applicants should, in addition to satisfying all other eligibility criteria for OAA except the OYCR rule, provide documentary proof of their residence in GD and declare that they have resided in GD continuously for at least one year immediately before the date of application. This is to ensure that beneficiaries of this special one-off arrangement have in fact settled in GD.

10. The special one-off arrangement for the GD Scheme is only for addressing the special circumstances of those HK elders who have already settled in GD, and will only be applicable in the first year after the implementation of the GD Scheme, which is different from OALA which requires recipients to satisfy post-application residence requirements. Elders who will join the GD Scheme through the special one-off arrangement can switch to OAA or DA in HK one year after they first receive OAA under the GD Scheme. The arrangement will be the same if they would like to switch to OALA.

The definitions of “income” and “assets” in the means declaration for OALA [In response to item (d) of the letter]

11. We propose that the definitions and limits of “income” and “assets” for OALA be the same as those for the existing Normal OAA, which are well understood by the elderly, and tried and tested. The definitions of “income” and “assets” for OALA are:

- ◆ “income” includes wages from employment, income from handiwork, business, etc. (including salaries, wages, monthly commissions or

bonuses received, etc.; income from handiwork; and monthly income from self-employment), retirement benefits/pensions, and net income on rentals collected. Contributions from family members, relatives or friends, and monthly payments received under reverse mortgage schemes are excluded.

- ◆ “assets” include land, non-owner occupied properties, cash in hand, bank savings, investments in stocks and shares (including accrued retirement benefits), vehicle for investment (e.g. taxi and public light bus) and its business licence, and gold bars and gold coins, etc. Owner occupied properties, columbarium for self-use in future, and the cash value of insurance schemes are excluded.

“Transfer of assets”, and ways of handling other matters related to means declaration *[In response to item (e) of the letter]*

12. OALA aims at alleviating poverty and supplementing the living expenses of needy elders. Applicants should understand this policy objective and declare their income and assets honestly. According to the rules, applicants will fulfil the eligibility criteria if their income and assets do not exceed the respective limits at the time of the declaration. However, if an applicant intentionally withholds or omits any information, or make false declarations, he/she may breach the law and be liable to prosecution. SWD will also duly recover any overpayment. The elderly should handle their assets carefully and take into account the risks involved.

The retirement protection system in HK, and overseas experience of implementing a universal retirement protection system *[In response to item (g) of the letter]*

13. HK has all along been adopting a three-pillar model for retirement protection: the Mandatory Provident Fund system, voluntary private savings and the non-contributory social security system (comprising CSSA, OAA and DA at present). This model was adopted in the 1990’s after lengthy discussion by different sectors of the community.

14. As the Chief Executive said when speaking to the Legislative Council on 17 October this year, the community has not yet reached a consensus on whether universal retirement protection should be introduced in HK. Meanwhile, the Government will continue to consolidate and strengthen the

three-pillar retirement protection system, to ensure that the existing pillars can fully complement each other.

15. In his election manifesto, the Chief Executive clearly stated that one of the specific tasks of the re-instated Commission on Poverty (CoP) would be “studying how to introduce short, medium and long-term measures to solve the problem of elderly poverty and improve the present social security and retirement protection systems”. In this connection, CoP will form a Task Force on Social Security and Retirement Protection, to be led by the Chief Secretary for Administration, to explore the relevant matters. As regards overseas experiences, we note that the Research Division of the Legislative Council Secretariat had prepared a detailed report on the Retirement Protection System in Selected Places for the Subcommittee on Retirement Protection of this Panel in the last legislative session.

Labour and Welfare Bureau
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