

## **Legislative Council Panel on Welfare Services**

### **Proposed Study on Retirement Protection in Hong Kong**

#### **Purpose**

This paper briefs Members on information related to the “Study on Retirement Protection in Hong Kong” to be conducted by the Administration.

#### **Background**

2. The existing retirement protection system in Hong Kong includes three pillars, namely the non-contributory social security system (made up of the Comprehensive Social Security Assistance (CSSA) Scheme, Old Age Allowance (OAA), Old Age Living Allowance (OALA) and Disability Allowance Schemes), the Mandatory Provident Fund (MPF) System launched in 2000 and voluntary private savings. This model was adopted in the 1990’s after lengthy discussion by different sectors of the community and is in line with the World Bank’s multi-pillar model<sup>1</sup>.

3. Retirement protection is a highly complicated and controversial subject, involving issues such as affordability and sustainability. There are also diverse views in the community. We must consider the issues very carefully. The Administration will continue to reinforce and enhance the existing three pillars under the retirement protection system and study retirement protection in depth in an open, pragmatic and prudent manner, while working to build a consensus in the community on the way forward. The Social Security and Retirement Protection Task Force (SSRPTF), established under the Commission on Poverty, will focus on policies related to these two areas.

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<sup>1</sup> The World Bank issued a report on “Old Age Income Support in the 21st Century: An International Perspective on Pension Systems and Reform” (the Report) in 2005. The World Bank reiterated in the Report that a multi-pillar retirement protection model can provide the elderly with the needed retirement protection more effectively than a single pillar model. The Report also pointed out that any recommendations to improve the retirement protection scheme should take into consideration the actual situation of the place.

4. The Chief Executive stated in the 2013 Policy Address that a welfare policy relying on high taxation is not a viable option, taking into account the economic structure and mode of social development in Hong Kong. The Financial Secretary also stated in the 2013-14 Budget that the issue of retirement protection must be considered with due regard to the sustainability of public finances and the possible financial pressure on our future generations. In discussing retirement protection, we must consider future changes to Hong Kong's demographic structure. The population is rapidly ageing. The percentage of elderly people aged 65 and over in the population is projected to rise from the present 14 per cent to 26 per cent in 2031. The labour force would start to shrink in 2018, and the elderly dependency ratio would drop from five working persons (i.e. aged 15 to 64) to one elderly person at present, to about two to one in 2031. In addition, the average life expectancy is projected to increase to 83.5 years for male and 89.8 years for female in 2031.

### **Previous studies on the subject of retirement protection**

5. The Central Policy Unit (CPU) completed five studies on retirement protection between 2007 and 2010 to assess the financial sustainability of the three pillars. As the socio-economic environment in Hong Kong has undergone many changes after the financial tsunami in 2008, and adjustments were made to relevant policies, the accuracy of the study findings has been affected. It is necessary for CPU to update the relevant data and refine its studies.

6. With the assistance of the Labour and Welfare Bureau (LWB) and the Financial Services and the Treasury Bureau (FSTB), CPU has launched a thematic household survey<sup>2</sup> with a sample of about 10 000 households in early 2012 through the Census and Statistics Department (C&SD) to understand the economic situation of citizens aged 35 or above and their retirement plans. The report of this survey is expected to be available by the middle of this year.

### **Key areas of research**

7. The next stage of our work is to conduct a further study on retirement protection having regard to the actual situation as well as changes to the demographic and socio-economic environment in Hong Kong.

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<sup>2</sup> Retirement Planning and the Financial Situation in Old Age in 2012.

8. In this regard, the SSRPTF agreed at its second meeting on 18 March 2013 to invite Professor Nelson Chow Wing-sun to conduct a study on retirement protection that would provide a basis for future deliberations. The study will include literature review on retirement protection; analysis of experiences of various countries and regions in implementing their retirement protection systems; collection and analysis of relevant data, including focus group discussions and interviews, data analysis and projections, and so on. Specifically, the proposed study can make an in-depth analysis on the following four aspects -

- (a) analyse the relationship among the elderly CSSA Scheme, OALA, and OAA, as well as their collective retirement protection functions;
- (b) on the basis of the relationship among the existing social security for the elderly, MPF, private savings and family resources (i.e. the three pillars), examine the retirement protection functions they perform collectively;
- (c) analyse and make projections on the major proposals on the development of retirement protection put forth by community groups, the political sector and academics, having regard to factors such as demographic changes in Hong Kong in the next 30 years, economic growth forecasts and the Government's fiscal strengths, and so on; and
- (d) use the analysis and projections in (c) above to propose feasible options to improve the social security and retirement protection for the elderly.

### **Operational arrangements**

9. A steering group will be set up to monitor the progress of the study team and discuss with it the research work or support needed. The steering group includes representatives from CPU, the Secretariat for the Commission on Poverty, LWB and FSTB, as well as academics and experts. The steering group will report regularly on the progress to the SSRPTF.

10. The proposed study is expected to be completed within 12 months. We hope that the findings of the study will provide the basis for an in-depth, rational and comprehensive discussion on the subject, thereby helping foster a consensus in the community.

## **Efforts to enhance existing retirement protection system**

11. As a pragmatic measure, the Administration implemented OALA in April this year, pitched at \$2,200 per month, to supplement the living expenses of needy elderly persons aged 65 or above. It is estimated that this new allowance will benefit over 400 000 elderly persons and effectively strengthens the social security system as one of the pillars of the retirement protection system.

12. As regards MPF, the Administration is now working with the Mandatory Provident Fund Schemes Authority (MPFA) on short, medium and long-term fee reduction measures. These include promoting electronic platforms, consolidating employees' accounts, and rationalising the types and numbers of MPF funds in order to reduce the administration costs. Meanwhile, we aim to cut down the fees and charges by maximising market forces. The MPFA is preparing proposals regarding the implementation of a cap on MPF fees that will be introduced in case of market failure. It is intended that the public will be consulted within this year.

## **Advice Sought**

13. Members are invited to note the content of this paper.

**Labour and Welfare Bureau**  
**Central Policy Unit**  
**May 2013**