

Legislative Council Panel on Welfare Services

Old Age Living Allowance

Purpose

The Chief Executive announced on 16 July 2012 the introduction of the Old Age Living Allowance (OALA). This paper briefs Members on its detailed parameters and implementation plan.

Background

2. We have all along been encouraging self-reliance. Through savings, investment and insurance policies, the individual prepares himself for retirement, and is backed up by his family when necessary. The Government seeks not to replace, but to reinforce, their roles. The Government has established the Mandatory Provident Fund (MPF) system which helps the working population accumulate retirement savings; and established the Social Security Allowance (SSA) Scheme and introduced Old Age Allowance (OAA) (and Disability Allowance (DA) for those with severe disabilities) which enables elders to have some financial independence. If and when the efforts of both the individual and his family fail, Comprehensive Social Security Assistance (CSSA) would come to aid. Details of the CSSA Scheme and the SSA Scheme are at **Annex A**.

The positioning of OALA

3. In his election manifesto, the Chief Executive (CE) pledged to “*build on the existing Old Age Allowance scheme and introduce a special allowance for the elderly who are in need so that they can receive about double the amount of the allowance (\$2,200) every month after a simple declaration of income and assets*”. CE subsequently announced, at the Legislative Council Question and Answer session on 16 July 2012, that the Government would introduce OALA

as an additional form of financial assistance for Hong Kong (HK) elders aged 65 or above who were in need of financial support, and that OALA would be pitched at \$2,200 per month (the announcement is at **Annex B**).

4. OALA is to be distinguished from CSSA because it seeks to supplement the living expenses of needy elders aged 65 or above, not to be entirely relied upon for subsistence. Although by nature it is an allowance to meet special needs and is therefore placed under the SSA Scheme, it is different from DA which targets persons with disabilities irrespective of age and means; and from OAA, the non-means-tested form of which (i.e. Higher OAA) will continue to be provided to elders aged 70 or above.

5. In introducing any new initiative, we should have due regard to its policy objectives, long-term implications and sustainability. Since OALA aims at alleviating poverty, its applicants must meet income and asset requirements. On the other hand, we need to be mindful that population ageing will put heavy pressure on our welfare and medical systems. It will also reduce our economic growth potentials and pose immense challenges to our fiscal sustainability in future. While the labour force is expected to shrink after around 2020 and along with it, possibly also a declining number of taxpayers, the number of elders aged 65 or above will concurrently surge, from 980 000 at present¹ to 2.16 million in 2031, and to 2.56 million in 2041, representing 30% of the population at that time. Meanwhile, HK will see a drastic increase in elderly dependency ratio and economic dependency ratio². If OALA is to be granted across-the-board to all elders regardless of the applicant's financial situation, the burden of OALA expenditure on public finance is bound to increase drastically over time. The consequential increase in OALA expenditure may considerably crowd out other Government expenditures, including welfare-related expenditures required to cope with an ageing population. This underlines the importance of having an objective mechanism of income and asset requirements to identify those genuinely in need so that the Government's limited resources can be directed to them. At the same time, the Government will need to study how to improve HK's retirement protection system (including the other

¹ Provisional figures for mid-2012.

² HK will see a sharp increase in the elderly dependency ratio (i.e. the number of persons aged 65 or above per 1 000 persons aged between 15 and 64), from 183 in 2012 to 497 in 2041. In terms of economic dependency ratio (which measures the burden on the labour force in taking care of the population, defined as the ratio of the economically inactive population to per 1 000 economically active persons), there will also be a drastic increase of 31% between 2012 (871) and 2029 (1 140), mainly as a result of our ageing population. (sources: Hong Kong Population Projections, 2012-2041; and Hong Kong Labour Force Projections, 2010-2029)

contributory pillars) to ensure the long-term stability and sustainability of public finance.

Key features of OALA

(A) No double benefits

6. It is the Government's established policy that a person may only apply for either CSSA, OAA or DA even if he satisfies the eligibility criteria for more than one of them. This is to avoid paying double benefits to an individual at the same time, and would help ensure the sustainability of the social security system. As OALA is a new form of financial assistance that works in parallel with existing ones for different beneficiaries, the "no double benefits" rule should also apply. In other words, OALA beneficiaries cannot at the same time receive CSSA, OAA or DA.

(B) Same eligibility criteria as Normal OAA

7. The Government is committed to enhancing the support for needy elders, and given the public's wish for a set of liberal and simple eligibility criteria, we have come to the conscious decision to adopt the eligibility criteria of Normal OAA, which are familiar to elders and well established. In other words, OALA applicants must –

- (a) be aged 65 or above;
- (b) have been a HK resident for at least seven years, and have resided in HK continuously for one year (with a grace period of 56 days) immediately before the date of application (i.e. the one-year continuous residence rule, or the "OYCR"); and
- (c) meet income and asset requirements. As stated in CE's announcement at **Annex B**, the thresholds of Normal OAA will be adopted.

(C) Same residence requirements during receipt of payment as OAA and DA

8. The residence requirements for SSA allow considerable freedom for the recipients (in particular OAA beneficiaries), who have very diverse backgrounds and travelling needs, to be away from HK for various reasons. In 2011, we further relaxed the absence limit such that SSA recipients could

receive full-year payment if he had stayed in HK for at least 60 days in a payment year. These requirements should also apply to OALA.

(D) Annually adjusted payment rates and income and asset limits

9. The initial rate of OALA is set at \$2,200 per month, as indicated in CE's election manifesto. To maintain the purchasing power of OALA, the payment rate will be adjusted annually according to the Social Security Assistance Index of Prices, i.e. following the established rate adjustment mechanism for OAA, DA and the standard rates of CSSA. Besides, the income and asset limits for OALA will be adjusted annually according to the established mechanism.

(E) Simple application procedures

10. In view of the large volume of potential applications at the initial stage of implementation and to save elders the trouble of having to queue up at social security field units of the Social Welfare Department (SWD), we have devised a set of simplified application procedures for the different types of eligible elders. Please see paragraph 13 below for details.

11. Recipients of CSSA, OAA and DA in HK may, by application, switch between their existing benefits and OALA based on their need and eligibility. Participants of the Guangdong (GD) Scheme (as described in **Annex A**) who have benefited from the special one-off arrangement (which waives the OYCR for applicants during the first year of the scheme) can only switch to OALA one year after they first receive OAA under the GD Scheme, or they would have to meet the OYCR. This arrangement applies also to GD Scheme participants who wish to switch to OAA or DA in HK.

Implementation

12. Subject to the funding approval by the Finance Committee (FC) in October 2012, SWD plans to formally launch OALA and start receiving applications in March 2013. This is a highly compressed implementation plan which allows needy elders to enjoy OALA benefits as soon as possible. While striving for efficiency and simplicity, we also need to be prudent in administration, in particular on the use of public funds. Highlighted below are the special arrangements designed for this purpose.

(A) Simplified application procedures

13. Different types of elders will undergo different procedures –

- (a) “auto-conversion” : as mentioned above, OALA and Normal OAA have identical eligibility criteria. Therefore, except those who take the initiative to report to SWD that they have exceeded the relevant income and asset limits and/or opt not to switch to OALA (see paragraph 14(a) below), all 290 000 existing OAA recipients, including 75 000 Normal OAA recipients and 215 000 former Normal OAA recipients who are receiving Higher OAA, will be deemed to be eligible for OALA. SWD will credit OALA payments to their bank accounts direct in March 2013 at the earliest without requiring them to make fresh applications;
- (b) “postal submission”: for existing Higher OAA recipients who have not received Normal OAA before and existing Normal DA recipients aged 65 or above, SWD will issue letters to them in late February 2013, inviting them to opt for OALA by postal submission; and
- (c) new application: new applicants (i.e. those not currently on OAA or Normal DA) will have to make their applications directly to SWD’s social security field units by fax, by e-mail, by post, through referral or in person after the OALA scheme is formally launched in March 2013 at the earliest (as mentioned in paragraph 12 above). SWD will then make appointment with the applicant to process the application.

14. We consider the simplified application procedures mentioned in paragraph 13 above, in particular the “auto-conversion” arrangement, appropriate for OALA because of its unique circumstances: that there is a large-scale migration of participants from another existing scheme who have passed basically the same means declaration procedures in the past; and that the participants concerned are all elders whose income and asset levels are unlikely to increase and render them ineligible over time. SWD will build in safeguards at various stages to screen out ineligible participants –

- (a) before auto-conversion takes place, SWD will first announce the simplified procedures through a press release, and SWD plans to issue a standard notification letter in January 2013 at the earliest to all prospective beneficiaries of the auto-conversion arrangement, informing them of the arrangement and advising them to report promptly to SWD if their income and/or assets have exceeded the

prescribed limits or if they opt not to switch to OALA (on the understanding that the provision of Normal OAA to them will be discontinued after OALA is launched in March 2013, in case of existing Normal OAA recipients). In both cases, SWD will not include the elders concerned in the auto-conversion;

- (b) in the second year after the OALA scheme is launched (i.e. between March 2014 and February 2015), postal reviews will be conducted for all auto-conversion cases, meaning that the recipients will have to declare afresh their income and assets. Those exceeding the limits will be screened out by September 2014 and will become ineligible upon expiry of the grace period (see paragraph 14(c) below);
- (c) drawing reference to the existing rule for Normal OAA³, all OALA recipients will be given a grace period. For auto-conversion cases, postal submission cases and new applications received within 2013, the grace period will be the 24 months counting from the “effective date” (see paragraph 15 below). For new applications received after 2013, the grace period will be 12 months from the date of application. SWD will assume that there is no change in the financial circumstances of the OALA recipients - and will not claw back any overpayment - during the grace period, even if it comes to know of any changes in income/asset level that should have rendered the recipient ineligible. However, this rule does not apply if incorrect declaration of income/asset is made at the time of postal submission, postal review or application. For these cases, all OALA payment already made after declaration of income/asset will be regarded as overpayment and will be duly recovered; and
- (d) from the third year of implementation (i.e. March 2015) onwards, OALA recipients will be subject to review.

(B) Effective date

15. The public announcement of 16 July 2012 suggested deeming the date of funding approval by the FC as the effective date for OALA payment. To be

³ For Normal OAA, all new successful applications will be given the benefit of presumption of “no change in status” for one year immediately after being awarded Normal OAA. Any subsequent changes within the said grace period which affect the applicant's financial eligibility due to excess income/assets will be disregarded. However, the said rule does not apply if incorrect declaration of income/assets was made at the time of application. Where the applicant is found to have made incorrect declaration of income/assets at the time of application, which renders him eligible for Normal OAA, any allowance thus paid should be taken as overpayment and should be duly recovered.

more generous to needy elders, we now propose to advance the date to the first day of the month of FC approval. For eligible elders, the first OALA payment will include a lump sum payment in arrears counting from that effective date, as well as the first regular monthly payment. However, the Government will not entertain any estate claims for OALA for any elders who could have benefited from the auto-conversion arrangement but have passed away before OALA is launched (in March 2013 at the earliest), and for any others who have passed away without having made a postal submission or new application.

16. The Government's established fiscal discipline does not normally provide for arrangements having such a retrospective effect, as long periods of back payment may have far-reaching financial and read-across implications for all other funding proposals in other policy areas. To uphold our fiscal discipline, every funding proposal which carries any specified retrospective effect (except those involving just a few days for administrative convenience) should be an exception rather than the rule, with reasons justifying the effective date. The exception for OALA is justified primarily by the paramount importance that the Administration attaches to promoting the well-being of our needy senior citizens. This is a very exceptional treatment for the benefit of needy elders upon the commencement of the new allowance, mainly to make up for the necessary lead time for SWD to put in place the application procedures without compromising the validity of the means test. To preclude the possibility of an unduly long back payment period and to uphold the integrity of the means test, the effective date should only apply to applications received no later than 31 December 2013.

17. The effective date will also serve as the reference date for the OYCR (see paragraph 7(b) above). SWD will assess whether new OALA applicants have complied with this rule with reference to this date. Existing OAA and Normal DA recipients who migrate to OALA should have all satisfied the OYCR when they first joined SSA.

(C) Rate adjustment in the first two years

18. As mentioned in paragraph 9 above, the OALA payment rate should normally be adjusted annually together with OAA, DA and CSSA standard rates according to the Social Security Assistance Index of Prices, but the initial rate of OALA will not be adjusted in February 2013 when OAA, DA and CSSA standard rates are adjusted. When the OALA rate is to be adjusted for the first time in February 2014, the adjustment will capture price changes since the effective date. The adjustment cycles of OAA, DA and CSSA standard rates will all be synchronised thereafter.

19. A flowchart showing the application procedures for the different types of OALA recipients is at **Annex C**.

Financial implications

20. We estimate that more than 400 000 persons will receive OALA in the first year. Taking 1 October 2012 as the “effective date”, SWD estimates that in 2012-13 the additional expenditure on OALA payment will be around \$3.1 billion (the amount will be around \$6.2 billion if calculated in full-year terms). Making reference to the 2012-13 Budget, an additional \$6.2 billion will result in a 14% increase in the estimated recurrent Government expenditure on welfare or a 2.3% increase in the total estimated recurrent Government expenditure in 2012-13, and represents 0.3% of Gross Domestic Product. Taking into account the effects of an ageing population, the financial implication of OALA is estimated to rise incrementally each year, to around \$6.4 billion in 2013-14, and further to some \$9.6 billion by 2022-23.

21. Should no limits be set for the financial means of people aged 70 or above, the additional expenditure in the first year (in full-year terms) is estimated to immediately soar from around \$6.2 billion by \$3.7 billion to almost \$10 billion. Should there be no such limits for all aged 65 or above, the extra cost will rise to a staggering \$13.6 billion. With a fast growing elderly population, the extra financial cost will balloon in the future.

22. Apart from allowance payment, SWD will need additional manpower to implement OALA. About 100 additional posts (including time-limited posts) will need to be created for the implementation of OALA at an annual additional expenditure of about \$32 million.

Next steps

23. The SSA Scheme is an administrative one and no legislative amendment is necessary. Subject to Members’ views, we will proceed to seek the approval of the FC on 26 October 2012, with a view to implementing OALA in March 2013 at the earliest.

Labour and Welfare Bureau
October 2012

**The Comprehensive Social Security Assistance Scheme and
the Social Security Allowance Scheme**

The Comprehensive Social Security Assistance (CSSA) Scheme

The CSSA Scheme provides financial assistance to families which are unable to support themselves financially to help them meet basic needs. It is their safety net of last resort. The amount of assistance under the CSSA Scheme is determined by the monthly income and recognised needs of a household. The difference between the total assessable monthly income of a household and its total monthly needs as recognised under the CSSA Scheme in terms of various types of payment will be the amount of assistance payable.

2. Compared to able-bodied adults, elders enjoy more relaxed means test requirements and higher standard rates, special grants and supplements under the CSSA Scheme. The standard rates range from \$2,660 to \$4,810 per month, depending on the health condition of the elderly recipient. The average monthly CSSA payment for singleton elders is \$4,701 when special grants and supplements applicable to elders are taken into account.

Residence requirements

3. Among other requirements, a person must have been a Hong Kong (HK) resident for at least seven years to be eligible for assistance under the CSSA Scheme. Once a person is on CSSA, he has to meet certain residence requirements in order to receive the assistance. A CSSA recipient aged 60 or above, for instance, can receive full-year payment if his/her total number of days of absence from HK does not exceed 180 days in a year. Otherwise, he/she can only receive CSSA payment for the absence allowance of 180 days, plus a pro-rata payment for the number of days he/she has stayed in HK.

Receipt of CSSA outside HK

4. Elderly persons aged 60 or above who have been in receipt of CSSA continuously for not less than 12 months may join the Portable CSSA Scheme whereby they will continue to receive their monthly standard rates and annual long-term supplement should they choose to take up permanent residence in Guangdong (GD) or Fujian.

The Social Security Allowance (SSA) Scheme

5. The SSA Scheme comprises Old Age Allowance (OAA) and Disability Allowance (DA) which provide cash allowances to help HK residents aged 65 or above and residents with severe disability meet their special needs arising from old age or severe disability respectively. Four allowances are payable on a monthly basis under the SSA Scheme, as follows –

- (a) Normal OAA (\$1,090): for elderly persons aged between 65 and 69 whose income and assets do not exceed the prescribed levels;
- (b) Higher OAA (\$1,090): for elderly persons aged 70 or above;
- (c) Normal DA (\$1,395): for severely disabled persons who, broadly speaking, suffer from a 100% loss of earning capacity; and
- (d) Higher DA (\$2,790): for severely disabled persons who require constant attendance from others in their daily life, but are not receiving such care in a government or subvented residential institution or a medical residential institution under the Hospital Authority, or boarding in a special school under the Education Bureau.

6. Applicants for SSA are not subject to means test, except that the income and assets of Normal OAA applicants must not exceed the prescribed levels as set out below:

	Asset Limit (\$)	Monthly Income Limit (\$)
For a single person	186,000	6,660
For a married couple	281,000	10,520

Note:

- ◆ “Income” includes earnings from employment, monthly pensions/retirement benefits or net profits from letting or subletting, but contributions from family members, relatives or friends are excluded.
- ◆ “Asset” includes land, non-owner occupied properties, cash in hand, bank savings, investments in shares and stocks, gold bars and gold coins, etc., vehicle for investment (e.g. taxi and public light bus) and its business licence.
- ◆ The thresholds are subject to annual rate adjustment according to established mechanism.

Residence requirements

7. To be eligible for an allowance under the SSA Scheme, a person must have been a HK resident for at least seven years and have resided in HK continuously for one year (with a grace period of 56 days) immediately before the date of application. An SSA recipient will be entitled to a full year allowance if he/she resides in HK for at least 60 days in a payment year.

Receipt of OAA outside HK

8. A new GD Scheme is under preparation for implementation in the second half of 2013. Under the GD Scheme, eligible HK elders who choose to reside in GD can receive full-year OAA there without having to return to HK each year. The GD Scheme has basically the same eligibility criteria as OAA in HK, and has the same 305-day permissible limit of absence per payment year for successful applicants, except that the recipients will be required to reside in GD instead of HK for at least 60 days for obtaining a full-year payment of the allowance.

二零一二年七月十六日

立法會答問大會

行政長官開場發言

(節錄)

7. 要妥善解決問題，我們必須深思熟慮。不過在研究長遠策略的同時，亦要在短時間內推出措施讓長者受惠。我在政綱中提出增設特惠生果金，有需要的長者經過簡單的入息及資產申報，可獲發雙倍的金額。新政府就任至今兩個星期，經過內部的積極跟進，這個定名為「長者生活津貼」的支援長者的項目，金額將較目前的高齡津貼增加至每月2,200元。資產及入息申報傾向寬鬆，建議與現時65到69歲長者申請普通高齡津貼的限額看齊。由於籌備和落實計劃需時，為使長者盡早受惠，我建議新津貼生效日期定於立法會財務委員會批准撥款當天，而政府會爭取在10月上旬召開特別財委會審批。換言之，只要財委會在特別會議上批准建議，當明年初計劃正式接受申請時，合資格長者不單可以開始按月領取2,200元的新津貼，並可一次過獲發自今年10月起計應得的額外津貼。初步估計會有40多萬名長者受惠，涉及每年額外支出超過60億元。為消除長者疑慮，我想說明，70歲或以上的長者若不符合新計劃的要求，仍可繼續申領現有的高齡津貼，而無須申報入息和資產。日後參加新「長者生活津貼」計劃的長者如想到廣東省居住，我們也會考慮作出適當安排。

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Proposed workflow of handling Old Age Living Allowance (OALA) application and review Annex C

