

# 立法會 *Legislative Council*

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## **Subcommittee on Retirement Protection**

### **Background brief prepared by the Legislative Council Secretariat for the meeting on 25 February 2014**

#### **Purpose**

This paper summarizes the major concerns raised on retirement protection at meetings of the Council and its committees.

#### **Background**

2. According to the Administration, Hong Kong has adopted the three-pillar model for retirement protection advocated by the World Bank, viz. the Mandatory Provident Funds ("MPF") Scheme, the non-contributory social security system (including the Comprehensive Social Security Assistance ("CSSA") Scheme, the Social Security Allowance Scheme, Old Age Allowance ("OAA") and Disability Allowance), and voluntary private savings. The Central Policy Unit ("CPU") had looked into the subject of retirement protection, and completed five related studies between 2007 and 2010. A summary of the five studies is in **Appendix I**.

3. According to the 2011 Population Census released by the Census and Statistics Department ("CSD"), the proportion of the population aged 65 and above had increased from 11% in 2001 to 13% in 2011. The corresponding number of people aged 65 and above increased from 747 052 in 2001 to 941 312 in 2011. The ageing trend of Hong Kong population is expected to be more apparent in the years ahead. According to the projections made by CSD, the proportion of people aged 65 and above is forecast to rise from 13% in 2011 to 30% in 2041, accounting for one out of every three Hong Kong people.

#### Subcommittee on Retirement Protection under the Panel on Welfare Services of the Fourth Legislative Council

4. In the Fourth Legislative Council ("LegCo"), the Panel on Welfare Services ("the Panel") appointed the Subcommittee on Retirement Protection ("the former Subcommittee") in January 2011 to study issues relating to retirement protection, and to follow up the proposal for implementation of a universal retirement protection scheme for all people in Hong Kong. The former Subcommittee completed its work and reported to the Panel in May 2012. The former Subcommittee recommended that the Government should make public all the findings of the studies conducted by CPU on the subject of retirement protection to facilitate public discussions; the next Government should set up a dedicated task force to study the subject matter, with a view to drawing up a concrete timetable for the launch of an extensive public consultation on the options and implementation details, and formulating concrete execution plans in the first year of tenure; and the Panel should follow up the matter in the next term.

#### Appointment of Subcommittee on Retirement Protection under the Panel of the Fifth LegCo

5. The Panel is very concerned about the provision of retirement protection for the public at large, particularly for the elderly as they cannot benefit from the MPF system. In the light of the ageing population, the Panel considers that the Government should establish a universal retirement protection system for all people in Hong Kong. Having considered that the former Subcommittee had made useful recommendations for the Administration's consideration and also recommended that the Panel should follow up with the Administration on the matter, Panel members agreed at the Panel meeting on 14 January 2013 to appoint the Subcommittee on Retirement Protection. As the subcommittees on policy issues in operation had reached the maximum number of eight at that time, the Subcommittee had been placed on the waiting list and was activated when a vacant slot arose in February 2014.

### **Members' deliberations and concerns**

#### Introduction of a universal retirement protection scheme

6. The former Subcommittee and the Panel expressed concern about the efficacy of the existing three-pillar model in protecting the retirement life of elders in view of the inadequacies of the existing social security system and the MPF system. They were of the view that the current CSSA level was inadequate to meet the daily living needs of CSSA recipients and many

people could hardly have any savings because of the rising living costs. As the implementation of universal retirement protection had been discussed at length and a consensus had already been reached in the society that the MPF system should be abolished, they called on the Administration to make reference to the five-pillar model put forward by the World Bank<sup>1</sup> in 2005 and introduce a universal retirement protection scheme in Hong Kong. Pointing out that more than 80% of the elderly aged 70 or above were receiving assistance or allowance, the former Subcommittee called on the Administration to formulate policies with a view to providing diversified retirement services for the elderly.

7. The Administration advised that the community had not yet reached a consensus on making fundamental changes to the existing retirement protection system. The Administration had taken initiatives to improve the livelihood of elders by optimizing the existing system, such as introducing the Guangdong Scheme to provide OAA for eligible Hong Kong elders living in Guangdong. The Administration stressed that it did not rule out the feasibility of studying the proposal for implementing universal retirement protection and was open-minded on any viable and sustainable options.

8. At its meeting on 22 January 2013, the Subcommittee on Poverty<sup>2</sup> under the House Committee passed a motion requesting the Government to, among other things, conduct an overhaul of the system of providing care for the elderly and provide retirement protection for all people in Hong Kong.

#### Consultancy study on retirement protection in Hong Kong

9. The Social Security and Retirement Protection Task Force ("the Task Force"), which was established under the Commission on Poverty, had commissioned a consultancy team under Professor Nelson CHOW's leadership to conduct a study on retirement protection ("the Study"). When the Panel was briefed on the progress of the Study at its meeting on 9 December 2013, Panel members were advised that the Study would make an in-depth analysis in the relationship among the elderly CSSA Scheme, Old Age Living Allowance, and OAA, as well as their collective retirement functions. The retirement protection functions performed collectively by the three pillars would also be analyzed. Feasible options to further

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<sup>1</sup> The World Bank had added two pillars to the three-pillar model in 2005, i.e. a non-contributory basic pension plan financed by the Government; and non-financial support including access to informal support (e.g. family support), other formal social security programmes (e.g. healthcare and/or housing), and other individual financial and non-financial assets (e.g. home ownership and reverse mortgages where available).

<sup>2</sup> The Subcommittee on Poverty was formed under the House Committee to study relevant policies and measures to ease the disparity between the rich and the poor and alleviate poverty, follow up the work of the Government's Commission on Poverty and make timely recommendations.

improve the social security and retirement protection for the elderly would be proposed based on the analysis and projections on the major proposals put forth by the community groups, the political sector and academics.

10. The consultancy team advised Panel members that it had received proposals suggesting different directions for retirement protection which included maintaining a status quo, improving the existing three-pillar model, implementing universal retirement protection, etc. There was also a suggestion that the eligible age for retirement protection should be lowered to 60. The consultancy team would categorize the proposals received according to their directions and select proposals from each category according to their representativeness for conducting 30-year actuarial projections. These proposals should follow the major principles set by the World Bank, i.e. there should be adequate protection for retirees and the retirement protection scheme should be sustainable and financially viable. Of the views received by the consultancy team so far, many supported universal retirement protection but a number of political parties and community groups had reservations about it. According to the consultancy team, given the strong views on retirement protection, more than one proposal in this category would be selected for projections.

11. Some Panel members opined that the Administration should make use of the Land Fund, which had a balance of around \$210 billion, to contribute to the retirement protection scheme and the retirement protection system should be a contributory system to which the Government, employers and employees should contribute. Some other Panel members considered that if employees were to contribute to the retirement protection scheme, they should have more take-home pay. To this end, the Administration should raise the Statutory Minimum Wage rate to \$35 per hour and impose control on property price.

12. Some Panel members stressed that retirement protection was a right rather than welfare and hence should not be studied from the poverty alleviation perspective. In considering retirement protection for the elderly, the Administration should capitalize values of the retirement protection system in Japan which stemmed from respecting elderly persons.

13. The Administration advised that it paid due respect to the elderly and appreciated their contributions to the society. The Administration had all along promoted caring for the elderly and on the advice of the Elderly Commission, various elderly care measures had been formulated. According to the consultancy team, most of the proposals received so far had emphasized that retirement protection was a fundamental right and the consultancy team would take note of it in conducting the Study.

### Implementation timetable for retirement protection

14. Panel members expressed great disappointment and dissatisfaction that notwithstanding discussions at length in the community on the subject of retirement protection, the Administration had yet to map out any conceptual framework for a retirement protection scheme. As the community had high expectation that the current term Government would introduce a retirement protection scheme, they called on the Administration to draw up a concrete plan and implementation timetable, including the period for public consultation, to follow up the final report of the Study.

15. The Administration advised that the Government attached great importance to retirement protection. The Study was scheduled to be completed by mid-2014 and the Task Force would study carefully the proposals contained in the final report of the Study, and assess their short, medium and long-term feasibility. Consultations would be conducted to receive public views. The Administration would discuss with the Task Force the way forward and the timetable. It was the Administration's hope to map out the direction of retirement protection within the current term Government.

### Mandatory Provident Fund Scheme

16. A question was raised, at the special Finance Committee meeting on 8 April 2013, on the methods and measures to reduce MPF fees and enhance the MPF system as well as the timetable for implementing these measures. The Administration advised that the Mandatory Provident Funds Authority ("MPFA") and the Administration were pursuing a basket of short, medium and long-term measures to achieve substantial reduction in MPF fees. On short-term measures, MPFA was pressing ahead with those measures suggested in the Consultancy Study on MPF Trustees' Administration Costs announced in November 2012 which could be implemented within the existing legislative framework to reduce administration costs. These included promoting electronic platforms, encouraging employees to consolidate their accounts, and encouraging trustees to consolidate MPF schemes/funds that were smaller in scale or less cost-efficient. Regarding medium-term measures, the Administration and MPFA were considering feasible options to enable MPFA to better perform its functions, which included specifying regulatory requirements for seeking MPFA's approval for MPF funds. The Administration aimed to introduce the proposed legislative amendments into LegCo by July 2014. As regards long-term measures, the Administration was discussing with MPFA the rationalization of fund choices and introduction of a cap on MPF fees in case of market failure, with a view to preparing a proposal for public consultation within 2013. MPFA also sought to complete mapping out the implementation of

full portability before 2016.

17. According to the Administration, the measures did not include the introduction of official or not-for-profit-making public trustee. The Administration and MPFA expected that there would be more significant reduction in MPF fees in the foreseeable future. In addition, MPFA was following up on the implementation details of the two proposals on "explicitly allowing scheme members to choose to withdraw their MPF benefits in a lump sum or in stages" and "allowing early withdrawal where a scheme member is certified to suffer from a terminal illness". This included discussing with trustees specific arrangements for implementing the proposals, and articulating the proposed legislative amendments. The Administration aimed to introduce the proposed legislative amendments into LegCo by July 2014.

18. Some Panel members criticized the offsetting arrangement under the MPF Scheme, i.e. allowing employers to use their contributions to the MPF Scheme for offsetting severance payments or long service payments. They expressed grave concern that the MPF system could not provide employees with retirement protection because of the offsetting arrangement, and hoped that the consultancy team would look into the matter in the Study and make suggestions to address the problem. The consultancy team advised that it had received many views against the offsetting arrangement and would truly reflect the views collected in its report. However, specific recommendations should be made by the Task Force. Subcommittee members may wish to note that the Panel on Financial Affairs and the Panel on Manpower will hold a joint meeting around March 2014 to discuss the arrangement.

### **Relevant papers**

19. A list of the relevant papers on the LegCo website is in **Appendix II**.

**A summary of the five studies on the retirement protection system in Hong Kong conducted by the Central Policy Unit**

Study title	Brief information
1. Household survey on financial disposition and retirement planning of current and future generations of retired persons	To understand the financial position and retirement plans of the current and future generations of retired persons.
2. A study on sustainability of three pillars of retirement protection in Hong Kong <sup>3</sup>	To project the financial position and the financial sustainability of the three pillars from 2006 to 2036 through macro and micro-simulations.
3. A study on the intergenerational transfers between elderly parents and adult children	<p>To study intergenerational mutual support in Hong Kong families, and factors affecting such support.</p> <p>Some of the findings were presented at the Conference on “Strengthening Hong Kong's Families: Obligation and Care Across the Generations” held on 9 June 2010. The presentation materials are available on the following website: (English only)</p> <p><a href="http://www.cpu.gov.hk/doc/en/events_conferences_seminars/20100609%20Chou%20Kee-lee.pdf">http://www.cpu.gov.hk/doc/en/events_conferences_seminars/20100609%20Chou%20Kee-lee.pdf</a></p>
4. The meaning and practice of filial piety in Hong Kong	<p>To examine the meaning of filial piety, as well as the views on and practice of filial piety of the two generations (adult children and their parents).</p> <p>The study report points out that the young generation nowadays is more flexible in the practice of filial piety. While the provision of financial</p>

<sup>3</sup> The report was completed in 2008 and the findings had not taken into account the latest development including the introduction of Statutory Minimum Wage in May 2011 and the implementation of Old Age Living Allowance in April 2013, etc.

	<p>support for parents is still regarded as an important conduct of filial piety, it carries more a symbolic meaning than material support. The two generations place heavier emphasis on love and respect.</p> <p>The study report is available on the following website: (English only)  <a href="http://www.cpu.gov.hk/doc/en/research_reports/Filial%20Piety.pdf">http://www.cpu.gov.hk/doc/en/research_reports/Filial%20Piety.pdf</a></p> <p>Some of the findings were presented at the Conference on “Strengthening Hong Kong's Families: Obligation and Care Across the Generations” held on 9 June 2010. The presentation materials are available on the following website:  <a href="http://www.cpu.gov.hk/doc/en/events_conferences_seminars/20100609%20Ting%20Kwok-fai.pdf">http://www.cpu.gov.hk/doc/en/events_conferences_seminars/20100609%20Ting%20Kwok-fai.pdf</a></p>
<p>5. Private saving in Hong Kong: implications for retirement protection</p>	<p>To understand the savings situation of employees (including individual and families).</p> <p>Some of the findings were presented at the Conference on “Strengthening Hong Kong's Families: Obligation and Care Across the Generations” held on 9 June 2010. The presentation materials are available on the following website: (English only)  <a href="http://www.cpu.gov.hk/doc/en/events_conferences_seminars/20100609%20Chou%20Kee-lee.pdf">http://www.cpu.gov.hk/doc/en/events_conferences_seminars/20100609%20Chou%20Kee-lee.pdf</a></p>

Source: LC Paper Nos. CB(2)1281/12-13(01) and CB(2)2350/10-11(01) provided by the Administration.



## Appendix II

### Relevant papers on retirement protection in Hong Kong

<b>Committee</b>	<b>Date of meeting</b>	<b>Paper</b>
Panel on Welfare Services	13 June 2005 (Item IV)	<u>Agenda</u> <u>Minutes</u>
Legislative Council	26 April 2006	<u>Official Record of</u> <u>Proceedings</u> (pages 160-239)
Panel on Welfare Services	8 June 2006 (Item I)	<u>Agenda</u> <u>Minutes</u>
Panel on Welfare Services	20 October 2010 (Item I)	<u>Agenda</u> <u>Minutes</u>
Panel on Welfare Services	8 November 2010 (Item IV)	<u>Agenda</u> <u>Minutes</u>
Finance Committee	17 December 2010 (Item 3)	<u>Agenda</u> <u>Minutes</u>
Panel on Welfare Services	18 December 2010 (Item I)	<u>Agenda</u> <u>Minutes</u>
Panel on Welfare Services	10 January 2011 (Item VI)	<u>Agenda</u> <u>Minutes</u>
House Committee	21 January 2011 (Item VII)	<u>Agenda</u> <u>Minutes</u>
Panel on Welfare Services	22 October 2012 (Item I)	<u>Agenda</u> <u>Minutes</u>
Panel on Welfare Services	25 October 2012 (Item I)	<u>Agenda</u> <u>Minutes</u>

<b>Committee</b>	<b>Date of meeting</b>	<b>Paper</b>
Panel on Welfare Services	29 October 2012 (Item I)	<u>Agenda</u> <u>Minutes</u>
Panel on Welfare Services	12 November 2012 (Item IV)	<u>Agenda</u> <u>Minutes</u>
Subcommittee on Poverty	11 December 2012 (Item III)	<u>Agenda</u> <u>Minutes</u>
Subcommittee on Poverty	22 January 2013 (Item I)	<u>Agenda</u> <u>Minutes</u>
House Committee	22 March 2013 (Item I)	<u>Agenda</u> <u>Minutes</u>
Finance Committee	8 April 2013	<u>Administration's reply to</u> <u>members' written</u> <u>questions in examining</u> <u>the Estimates of</u> <u>Expenditure 2013-2014</u> <u>Pages 67-68</u>
Panel on Welfare Services	9 December 2013 (Item III)	<u>Agenda</u> <u>Minutes</u>

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