Research Report on

Future Development of Retirement Protection in Hong Kong

Executive Summary

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Introduction

The Chief Executive C Y Leung said in the Policy Address 2013:

> *'Regarding retirement protection, I suggest in my Manifesto that we should study the impact of an ageing population on our public finance, and plan ahead to deal with the issue in a timely manner. The Government will reinforce and enhance the existing three pillars, namely, private savings and family support, the social security system, and the Mandatory Provident Fund (MPF) System. The Old Age Living Allowance (OALA), to be launched in April 2013, will be an additional tier of financial assistance between the CSSA and the Old Age Allowance (OAA). Some have proposed that the Government should review the relationship between the three types of financial assistance for the elderly, namely the CSSA, OALA and OAA. We are also aware of views in favour of the introduction of universal retirement protection. But there are concerns that universal retirement protection would impose a very heavy burden on the public coffers over time, and would be impractical without tax hikes. The other option based on tripartite contribution from employers, employees and the Government is equally controversial, involving issues such as affordability and sustainability…' (para.97)*

According to what the Chief Executive said in the policy address, the present research conducted an in-depth analysis and study of existing social security systems and related retirement protection measures in Hong Kong. We wish to lay out clearly the pros and cons of existing social security measures for the elderly and retirement protection arrangements. This is then used as a basis for analysis and a 30-year projection of retirement protection options put forward by political parties and civil bodies. It would throw light on the impact of various options on areas of concern including protection for old age living at retirement; probability of dragging down Hong Kong's future economic development; level of receptivity and affordability towards extra contribution by employers and employees; burden on public coffers, etc. The present research aimed at providing scientific and objective data for answering the above questions.

Over more than a year's time, the research team has completed the following tasks: establishing research objectives and analytical framework; examining the degree of old-age poverty as well as the pros and cons of existing retirement protection measures; estimating demand for retirement protection arising from changes in population development; comparing and getting insights from retirement protection systems of other countries or regions; analyzing suggestions and comments regarding retirement protection from various concerned individuals and bodies; collecting opinions from different political parties and concerned bodies on future development of retirement protection especially concrete suggestions and development options; collecting opinions on future development of retirement protection through focus groups of retired elderlies, persons from different income bracket; self-employed persons; professionals and employers; collecting opinions on future development of retirement protection from members of the public through conducting three public consultation sessions and virtual consultation; processing information and opinions collected and selecting mainstream options for future development of retirement protection; calculating the adequacy, affordability, sustainability and robustness of the five representative mainstream options in the 30-year projection according to the analytical framework of the World Bank.

On completing the above tasks, the research team made the following analysis:

(1) Issue of old-age poverty

According to the 'Hong Kong Poverty Situation Report 2012' released by The Commission on Poverty last year, 43.5% of the elderly population (aged 65 and above) were living below the Poverty Line. Even when including cash assistance provided by various social security measures, one in every three elderlies was living in poverty indicating the gravity of the problem, absolutely cannot be neglected.

Statistical figures from the Social Welfare Department indicated that there was earnest demand for various social security measures by the elderly. The number of elderly (aged 60 and above) recipients of Comprehensive Social Security Assistance (CSSA) stayed at 180,000. This figure had not increased with the aging population in the past few years possibly because the Mandatory Provident Fund (MPF) had helped reduce the number of retirees in need of CSSA during the initial years of their retirement. However, the lower-income retirees were only getting tens of thousands of dollars at retirement and so unless they have other income sources, the MPF could only provide short-lived retirement protection.

Since the introduction of Old Age Living Allowance (OALA) last year, the number of recipients is around 420,000 suggesting that nowadays besides elderly CSSA recipients, senior citizens had little assets and were in great need of livelihood support. Figures suggested that the OALA had become a significant source of income to them. In contrast, the number of recipients of Old Age Allowance (OAA) has dropped sharply. It was time to review the stance of taking the OAA as a token of respect for the elderly.

(2) Impact of population growth on retirement protection

The research team used about 30 years between 2013 and 2041 as the period for projection. It is an indisputable fact that the Hong Kong population is speedily aging and it is worth noting a remarkable increase in the number of old-old (aged 75 and above). With an aging population, increasing demand for livelihood support and medical services would ensue. It was evident to the research team that a population policy must attend to and tackle the demand for livelihood support and medical services from the elderlies. How? The society must seek to reach a consensus and to collaborate for a solution.

On the other hand, although Hong Kong population would maintain a mild upward trend till 2041, the workforce will show a slight negative growth starting from 2018. Many elderly, especially those from the middle-lower class, wished to continue to work so as to save enough for a financially independent and decent old age living. Government and industries should further explore the issue of improving employment environment and removing obstacles in the labour market for the elderly.

The research team also found that the coming ten years would be a peak period of retirement for the 'post-war baby'. This cohort of post-war citizens was mostly engaged in manufacturing or low-skilled service industries during their work life. Family burden generally used up much of their income leaving little for savings for old age living thus increasing their demand for social security and public medical services when they retire. On the other hand, though there were no signs of decrease in monetary support for the elderly from family and their children, with the decrease in number of children and increase in number of single elderlies, the buffering effect of family support would likely dwindle.

(3) Comparison of retirement protection systems in other countries and regions

The following three conclusions were reached by the research team after comparing retirement protection systems in other countries and regions:

Firstly, retirement protection systems were no longer made up of single schemes and financial sources were diversifying. The three- or five-pillar concept of retirement protection proposed by the World Bank might not be in full implementation in these countries or regions, but a diversified combination had become the common goal for developing today's retirement protection system.

Secondly, 'old age grant' for the elderly has now become an important factor in the retirement protection systems of various countries and regions. However the amount was usually below subsistence level and could only be one of the three or five pillars of retirement protection; in some systems, means test was included. A 'perfect' old age grant system was virtually non-existent, countries and regions were constantly exploring and enhancing existing old age protection systems in their varying circumstances in order to reach the goals of wide coverage, diversification, adequacy in protection, affordability and sustainability.

Thirdly, the following reform tendencies were observed in international social retirement protection systems: promoting wide system coverage and ensuring the adequacy of amount through increased contribution, equitability and annuitization; realizing work incentive and payment affordability through deferred pension payment, tax increase and 'tax reduction for the elderly'; implementing and enhancing funded pension schemes with defined contribution arrangements through corresponding tax exemption and strengthening monitoring of system operation; implementing notional account system; enhancing administrative efficiency through combined accounts, centralized management and rolling out ‘low-cost old age funds products’.

(4) Comments and suggestions on retirement protection

In the last twenty to thirty years, there had been much discussion on retirement protection, opinions may be classified into three categories:

First category: found the government’s retirement protection arrangements to be gravely in want and suggested immediate improvement by the government to provide the elderly with adequate protection. In the 80’s, the more widely accepted opinion was advocating for the setting up of a central provident fund; in the 90’s it was for a retirement protection scheme with tripartite contribution; in the post-millennium period, it was for ‘universal retirement protection’.

Second category: strongly opposed to any form of universal retirement protection scheme. This came mainly from the industrial-commercial sector. Some were particularly against the idea of any retirement protection scheme without means test seeing this as ‘welfarism’. Reasons for opposition included: financially infeasible for the government to shoulder the burden of a universal retirement protection scheme over time, damaging to Hong Kong economic development, increasing burden on the employers, undermining traditional virtue of filial provision for parents. Some recent views saw setting up universal retirement protection as bowing to ‘populism’.

Third category: viewed from the angle of social and economic development, suggested that future development of retirement protection must be discreet and progressing step-by-step. Such a view was opposed to proposals from either side and disagreed with maintaining the status quo of retirement protection.

(5) Opinions of political parties and concerned bodies on retirement protection

Opinions expressed by political parties and concerned bodies reflected great divergence among members of the public. Differences were shown in the following three aspects:

First, conceptual difference of 'who is responsible?'. Some considered that old age living protection should be the responsibility of individuals and their family and not be laid on others nor should it be wholly financed by the government. Overseas experience was frequently cited to show that universal retirement protection was not viable. In contrast, some views considered retirement protection as a civil right and all senior citizens, rich or poor, should enjoy a fully dignified life.

Second, difference regarding the role played by the government in retirement protection. Some thought that in view of limited financial resources, the government should only provide for the financially needy elderlies and not for all senior citizens. On the contrary, some thought with the level of Hong Kong's economic development and the huge financial reserve, the government definitely had the capacity and means to provide for basic livelihood protection for all senior citizens.

Third, difference in understanding the relationship between retirement protection and income. Some understood it as an income-linked retirement protection scheme like those generally implemented in developed countries or regions. If similar scheme was implemented in Hong Kong, it would cause tremendous burden on public finance and may even cause collapse of the Hong Kong economy. On the other end, some advocated universal retirement protection pointing to a kind of benefit for all senior citizens, unrelated to their past work history or salary. They hoped for the setting up of some kind of universal livelihood protection grant.

In view of the above difference in understanding, the research team considered it necessary to clarify conceptual understanding in discussions of universal retirement protection and to facilitate focused and 'un-confused' discussion, the research team would use the term 'demo-grant'.

(6) Opinions collected from focus groups

Focus groups were arranged to reach different stakeholders and to collect their opinions on the future development of retirement protection through small group discussion and interaction. Participants included retired elderlies, employers, individuals of different income bracket, professionals, working minority groups, self-employed persons and non-working persons. The following was the main analysis by the research team:

Opinions of participants towards retirement protection systems in Hong Kong

Participants from different groups generally found existing retirement protection system to be inadequate as it was unable to support retirement living. Most expressed difficulties in making planning for retirement living before retirement. They found it hard to make ends meet because of limited income and perpetual inflation and were therefore unable to put aside savings for retirement. Participants generally anticipated difficulties in paying for medical and housing expenses. They wished the government could implement non-means-tested universal retirement protection.

Most participants had much reservation about the MPF scheme and severe criticisms were made. They generally found themselves unable to preserve the capital due to fluctuation in investment market and were dissatisfied with the 'offset arrangement' and high management fees. Hence participants opined that the MPF could not provide effective retirement protection as most had limited accrued amount in their account.

Among those who were opposed to a universal, uniform amount, non-means-tested retirement protection scheme, majority were employers. They thought that people in employment should save for their or their family's retirement living using their income. The government should strengthen management of the MPF and use taxation exemption measure to encourage citizens to plan adequately for retirement and as such bring about positive influence to society. Employers of large enterprises agreed to a slight increase in employer contribution rate for the MPF but the government must also contribute. They also agreed to a slight increase in the maximum income level for contribution. Employers of small and medium enterprises thought the present MPF contribution level should be maintained and disagreed with raising the maximum income level for contribution.

Participants from the categories of professionals and self-employed persons were generally of the view that universal retirement protection would entail heavy financial burden on society and any retirement protection scheme should be means-tested. They suggested improving existing retirement protection system and raising the amount of assistance provided so that resources may go to the most needy. Some retired elderlies shared this view.

In sum, mainstream opinion from focus group participants was for universal retirement protection so that the elderly could be provided with basic livelihood protection. It was also an expression of care and respect for the elderly by society. Means test may create labelling effect and administrative confusion and may hinder some elderlies in need from getting the support they should have. On the other hand, some participants showed reservation towards universal retirement protection, thinking that Hong Kong should not promote 'welfarism' and that such a system was unsuitable to circumstances in Hong Kong.

Responsibility of contribution

If universal retirement protection was to be implemented, though participants had different views, most agreed that employees should contribute to the new scheme in order to get the monthly retirement fund; some young participants expressed that they were willing to contribute to help current retirees so as to build a culture of love and concern; some professionals and self-employed persons disagreed with changing existing contribution rate of the MPF.

Benefit amount

If universal retirement protection was to be implemented, participants generally suggested a monthly amount of $3,000 to $4,000, a few considered a sufficient amount should be $5,000. Some employer bodies proposed tiered means test to determine different amount of retirement benefit received by different retired persons varying among $1,000, $2,000, $4,000.

Reform in taxation system

Participants from various focus groups opined that there was room for taxation system reform, generally suggested raising profits tax, such as raising one to two percent of the profits tax for enterprises making a profit exceeding a certain level; quite a number of views pointed to raising tax rate on tobacco and liquor or levying tax on luxurious items; opinions were generally opposed to raising personal salaries tax; though some large enterprise employers thought company profits tax could be raised, some employers and other participants thought that tax raise would increase operational costs and weaken Hong Kong's competitiveness.

(7) Opinions collected from public consultation

Views collected from public consultation generally wished for a prompt implementation of a universal, non-means-tested and uniform amount retirement protection system. They saw it as the basic right of citizens and suggested that the amount provided should be sufficient for subsistence such that retirees may live in dignity. Proposed amount ranged from $3,000 to $4,000 and funds should be sourced from the government, employers and employees. Raise in profits tax may also be considered for enterprises making higher profits.

Citizens participating in the public consultation sessions were generally dissatisfied with the MPF considering it incapable of providing adequate retirement protection. There was suggestion of transferring part of the MPF contribution to a new scheme managed by the government. In this way citizens could be spared of the burden of extra contribution and adequate financial source for universal retirement protection could be provided.

(8) Criteria used in selecting retirement protection options for projection

Retirement protection options collected by the research team from political parties and concerned bodies could be divided into three categories: Category I – Universal, uniform amount and non-means-tested; Category II – Multi-tiered retirement livelihood protection; Category III – Annuity schemes. The research team selected three options from Category I, two options from Category II and one from Category III making a total of six options for projection.

Options of Category I were similar but varied in implementation details and actual operation. In selecting the options, the research team looked for differences in content and considered the population group represented by the bodies proposing the options. In the end we selected options put forward by a labour union (The Hong Kong Federation of Trade Unions), a civil organization (Alliance for Universal Pension) and a professional body (The Professional Commons). They differed in the following way:

- Firstly in the amount of basic retirement benefit. Options of Category I proposed a uniform amount between $3,000 and $4,000. The options selected by the research team varied in the amount of basic retirement benefit and period of implementation.

- Secondly in arrangement of source of capital. The options differed in details of source of capital. While they were for contribution from employees, employers and the government, they differed regarding extra contribution, level of minimum and maximum income for contribution and injection of funds by the government.

- Thirdly in handling existing MPF. Category I options were mostly for keeping the MPF but suggested modification in contribution arrangement to reduce possible extra burden on the citizens brought about by a new scheme. Options selected by the research team included those without transfer of MPF to the new scheme and those for transferring different percentage of MPF contribution to the new scheme.

- Fourthly in extra injection of funds by the government. Options included different amount and different schedule of injection.

- Fifthly in taxation reform. Bodies in support of universal retirement protection generally thought that taxation reform was necessary for the new scheme and suggested levying extra profits tax on large enterprises with considerable profits. Options selected by the research team included those without extra profits tax and those for levying different extra percentage of profits tax on enterprises making high profits.

These three selected options differed in details, the research team could calculate the replacement rate, sustainability and level of financial burden in the period of projection by the government, employers and employees using data obtained from actuarial model projection. The purpose of projection was not for assessing which was the better option, it was done to provide projection results based on source of capital and benefit amount in each option.

Category II options were multi-tiered options of enhancement of existing social security. They included options proposed by the Democratic Alliance for the Betterment and Progress of Hong Kong (DAB) and the New People's Party.

Category III was annuity schemes options. Annuity schemes involved huge hypothetical data. The research team selected Law Chi Kwong's public retirement fund option and made projection of its income replacement rate.

Details of the six options are listed below:

Category I: Universal uniform amount and non-means-tested

	Suggestion on retirement protection and basic premises	Assessment of income & assets	Amount of retirement protection	Contribution by employee & employer				Minimum/maximum income level for contribution	Injection/contribution by the government	Handling existing MPF	Handling special groups (emigrants overseas or in the mainland, immigrants, civil servants on government pensions, employees participating in contribution to ORSO or other non-MPF)	Suggestion on taxation reform
				Transfer from MPF		Extra contribution						
				employee	employer	employee	employer					
FTU	The FTU option did away with charity concept and based itself on universal benefit to achieve principles of social harmony and stability, ensuring a retirement life of dignity for the elderly. It was a universal social insurance, contributed by the government and society, vertically fair, on payment by affordability and continuously operating in face of the peak period of aging.	Universal uniform non-means-tested	Suggested benefit level at $3,250 (25% of wage median). The FTU expected benefit to be at 25% of the wage median in the first few years of implementation and left it for the society to decide if further changes were required later on. Recommended to implement in 2016.	1% Beginning in 2021	1%	0.5%	0.5%	Transfer of 1% MPF contribution: according to the MPF's minimum and maximum income level; Extra 0.5% contribution: minimum income level according to MPF with no maximum income level	(1) suggested the government to allot over 22years' time $200 billion from the Land Fund and investment return from social insurance; (2) expenditures on OAA, OALA and part of elderly CSSA; (3) 5% of government financial surplus or a certain percentage of expenditure.	Maintaining existing MPF, may consider deducting 1% from the 5% employer and employee contribution for retirement protection. Suggested cancellation of offsetting severance payment and long service gratuity, and setting statutory ceiling for fees.	Permanent residents aged 65 or above are eligible.	Extra 1% profits tax for those enterprises with assessable profit at or above $10 million
Alliance for Universal Pension (Alliance)	Universal old-age pension: a monthly pension for all Hong Kong residents aged 65 or above. To provide basic living protection for all elderlies in the next 30 years under the condition of no extra contribution by employers/employees, society to share out responsibility of alleviating old-age poverty; substantial reduction of the government's financial pressure and pressure on tax increase due to increasing number of CSSA elderly recipients, counteracting social impact during the peak period of population aging.	Universal uniform non-means-tested	Suggested a monthly pension of $3,000 (at 2010 level), subsequent annual adjustment with inflation.	2.5%	2.5%	0%	0%	Maximum income level at $30,000，minimum income level $6,500.	(1) expenditure of standard rate for recipients aged 65 or above in the CSSA scheme; (2) expenditure on OAA and OALA from the Social Security Allowance Scheme; (3) a one-off $50 billion initiation fund.	Maintaining the MPF, contribution halved and allotted to universal pension.	For lack of sufficient data on pensionable civil servants they were not included in the calculation of the scheme. Concerned bodies had asked if elderlies who had left Hong Kong and were living overseas or in the mainland would benefit from such pension. To prevent confusing citizens, the Alliance would not deal with the question in the option but posed it for suggestions from citizens.	Enterprises making a profit exceeding $10 million, extra 1.9% annual profits tax
Professional Commons (Commons)	The overall principles of the Commons' option were universal old age pension and tripartite contribution. To supplement Hong Kong's inadequacy in terms of the five pillars framework of the World Bank, tripartite contribution by employees, employers and the government was suggested, basing on principles of fairness, payment according to affordability, sustainability and affordability.	Universal uniform non-means-tested	All Hong Kong permanent residents aged 65 or above are eligible for the old age pension. If implemented in 2012, suggested monthly amount was $3,000. It was estimated that the scheme would likely be implemented the earliest in 2017, the monthly amount is amended to $4,000. (according to inflation/deflation adjustment)	0%	0%	2.5%	2.5%	Monthly income of $6,500 or below would be exempted from contribution (future adjustment to be based on minimum wage), maximum income level at $80,000, future adjustment according to inflation.	(1) transfer expenditure on standard rate of existing CSSA, OALA and OAA to future old age pension; (2) inject $50 billion in the first five years as core fund, then equivalent of $25 billion every five years till last injection in 2037.	Maintaining the MPF, employees and employers were to make extra contribution to this universal retirement protection scheme.	Hong Kong permanent residents aged 65or above are eligible recipients including those residing in Guangdong and Fujian but excluding emigrants to overseas countries and those without permanent resident status.	Not discussed

Note: price of 2013 applied to all amount except otherwise stated

Category II: Multi-tiered protection

	Suggestion on retirement protection and basic premises	Assessment of income & assets	Amount of retirement protection	Contribution by employee & employer				Minimum/maximum income level for contribution	Injection/contribution by the government	Handling existing MPF	Handling special groups (emigrants overseas or in the mainland, immigrants, civil servants on government pensions, employees participating in contribution to ORSO or other non-MPF)	Suggestion on taxation reform
				Transfer from MPF		Extra contribution						
				employee	employer	employee	employer					
DAB	The DAB suggested a three-tiered 'retirement protection old age pension', all local residents residing in Hong Kong for more than seven years and aged 65 or above may apply. Employees and employers need not make extra contribution than the MPF. The government was to pay for the scheme from her recurrent expenditure which would not constitute a heavy burden.	Tier I non-means-tested, Tier II assets limited at $300,000, Tier III assets limited at $150,000	Age for eligibility for the Old age pension is proposed to be 65 and applicants must reside in Hong Kong for more than seven years and must not apply for other similar schemes. Amount payable depended on tier of means test: Tier I $1,135; Tier II $2,270; Tier III $3,405. Payment amount to be adjusted with cost of living such as inflation, social security assistance index of prices.	Not applicable, transfer or extra contribution not required, wholly financed by public funds.				Not applicable	Funded by the government through recurrent public finance expenditure	Maintaining the MPF, supported that the government should give preference to those willing to make voluntary additional contribution, should consider setting ceiling for management fees.	Applicants must be local residents who have resided in Hong Kong for more than seven years and be aged 65 or above.	Not discussed
New People's Party	Advocated that citizens should work and plan and save for their old age living. Supported assessment of income and assets such that resources may be channelled to elderlies in hardship. Opposed to universal uniform non-means-tested old age pension as citizens should be self-reliant.	Maintaining existing protection and means test. New protection tier for those with assets limit at $100,000.	A new tier of protection besides OALA and CSSA to help those with assets below $100,000. Monthly allowance of $3,600 recommended (at June 2013 level). Monthly amount will be adjusted annually with inflation.	Not applicable, transfer or extra contribution not required, wholly financed by public funds.				Not applicable	The new tier of protection to be paid for by the government	Opposed to making any changes in existing MPF and opposed to transferring part of the contribution to universal retirement scheme.	Not applicable	Suggested review of taxation system, widening tax base, adding tax categories such as dividend tax, capital gains tax.

Note: price of 2013 applied to all amount except otherwise stated

Category III: Annuity schemes

	Suggestion on retirement protection and basic premises	Assessment of income & assets	Amount of retirement protection	Contribution by employee & employer				Minimum/maximum income level for contribution	Injection/contribution by the government	Handling existing MPF	Handling special groups (emigrants overseas or in the mainland, immigrants, civil servants on government pensions, employees participating in contribution to ORSO or other non-MPF)	Suggestion on taxation reform
				Transfer from MPF		Extra contribution						
				employee	employer	employee	employer					
Dr Law Chi Kwong	'Public retirement fund': establishing a management trust fund, providing a monthly pension to retirees who voluntarily deposit their accrued benefits from the MPF at retirement to the fund, calculation similar to annuity. Trust fund may be managed by the Monetary Authority. Through the insurance concepts of annuity, retired participants could get a steady monthly income, any government subsidy (related expenditure) would gradually diminish as the MPF matured.	Means test would apply if income supplement is applied for.	Initial estimation suggested that if participants deposited $1 million with the fund, there would be two choices: (1) getting about $5,000 per month or (2) getting half as annuity and another half as investment return. It was estimated that together with the annuity, a monthly amount of $3,500 may be collected for every million deposited (based on the average interest rate of 2.5% of the stocks market in the last 25years). If participants deposited below $1 million, they may only get annuity. If participants got a monthly amount lower the basic (currently $3,600), they might apply for income supplement which would be means tested. Way of adjustment: $3,600 is 30% of the 2012 income median. A simple way would be to use 30% of the income median as basis for adjustment.	Not applicable				Not applicable	Supplement accounts with annuity below the basic amount.	Retirees who voluntarily deposit their accrued benefits from the MPF at retirement to the trust fund would get a monthly pension calculated similarly as annuity.	Not applicable to those residing overseas or in the mainland. Participants in the ORSO may also take part. Other persons may also join if they deposit $1 million or more.	Not applicable

Note: price of 2013 applied to all amount except otherwise stated

(9) Criteria used in projection of options and results

In projection of the proposed retirement protection options and in assessing their viability, the research team employed the four criteria set by the World Bank including adequacy, sustainability, affordability and robustness. Besides projection of existing social security systems for protection of old age living, we also projected three options which advocated universal, uniform and non-means-tested retirement protection and two options which advocated multi-tiered protection for old age living. As for annuity scheme, only its adequacy could be evaluated in view of the lack of data for the other three criteria. Table 1 showed projection of the options.

Table 1 Types and items of options for projection

Type of option	Adequacy	Sustainability	Affordability	Robustness/ Sensitivity test
Existing social security systems for the elderly	✓	Projected jointly		✓
Universal, uniform amount, non-means-tested	✓	Sustainability of internal system	✓	✓
Multi-tiered retirement life protection	✓	Projected jointly		✓
Annuity schemes	✓	Insufficient data for analysis		

Projection of expenditure for existing social security systems for the elderly

Table 2 showed expenditure projection of existing social security systems for the elderly: under the assumption of base economic condition, expenditure would increase from $21.72 billion in 2013 to $59.14 billion in 2041 (price of 2013 applied except otherwise stated), 2.7 times of the amount in 2013, similar to population rise within the same period. Economic growth was assumed for the period, related government expenditure would increase from 5.0% of total expenditure in 2013 to 8.2% in 2041, 1.6 times of the amount in

2013; 1.9 times in terms of percentage in GDP, when economic condition was assumed to be low, 2.2 times, when high, 1.6 times.[1]

It must be pointed out that in calculating expenditure for CSSA for the elderly, we have included rent and other assistance provided by CSSA, it also included Normal and Higher Disability Allowance received by the elderly. If expenditure on these two areas are deducted, the total expenditure on various social security in 2013 would be $17.58 billion (0.8% of GDP), by 2041 it would reach $48.49 billion (1.6% of nominal GDP), expenditure for the period is 2.8 times of the amount in 2013, 1.9 times for percentage of GDP.

[1] The number of multiple varied from results of direct calculation in Table 2, because the figures in the text was calculated from the original, more complete data.

Table 2 Projection of social security expenditure for the elderly (base economic condition)

Year	($ billion, current price)	($ billion, price in 2013)	Percentage of total government expenditure	Percentage of nominal GDP (assumption of economic condition)*		
				base	high	low
2013	21.72	21.72	5.0%	1.0%	1.0%	1.0%
2014	23.79	22.94	5.7%	1.1%	1.1%	1.1%
2015	25.45	23.71	5.2%	1.1%	1.1%	1.1%
2016	27.15	24.44	5.7%	1.1%	1.1%	1.1%
2021	38.71	29.77	6.1%	1.2%	1.2%	1.3%
2031	79.04	45.23	7.5%	1.6%	1.5%	1.9%
2041	138.90	59.14	8.2%	2.0%	1.7%	2.3%

* when economic condition was assumed to be high, utilization rate for elderly social security expenditure was assumed to be lower; vice versa

Projection results of individual suggested option

Adequacy of options

In evaluating the adequacy of the options, we used the life protection afforded by the five pillars for overall analysis. Table 3 listed the protection amount of each option. As different income groups would get different amount from individual pillar, e.g. lower income group may be eligible for receiving CSSA, persons with some assets may receive OALA, so we had assigned different pillar income to different income groups and made projection accordingly.

Table 3 Protection provided by each retirement protection pillar (price at 2013)

	Multiples of Income Median							
	0	**0.5**	**0.75**	**1**	**1.5**	**2**	**3**	**5**
Pillar 0								
Existing social security system	CSSA	OALA [b]		OAA [b]				
Universal, uniform, non-means-tested	$1,687 [a] (extra allowance for lower income elderly including housing allowance)							
Multi-tiered retirement livelihood protection								
P4 DAB	$3,405+ $1,687 [a]	$3,405	$2,270	$1,135				
P5 New People's Party	$3,600+ $1,687 [a]	$3,600	OALA [b]	OAA [b]				
Annuity income protection								
P6 Law Chi Kwong	CSSA	Same as existing elderly social security system, if getting less than $3,600 even with the second pillar (i.e. MPF), then supplement from public fund						
Pillar 1								
P1 FTU	$3,250							
P2 Alliance for Universal Pension	$3,422							
P3 Professional Commons	$3,479							
Pillar 2								
All options	Not applicable	Computing inflation-linked annuity through actuarial methods from accrued amount of MPF(mandatory portion) of different income groups						
Pillar 3								
All options	Based on OECD model, this pillar only included voluntary contribution in the ordinance and did not include personal savings							
Pillar 4								
All options	Elderly Health Care Voucher (for elderly aged 70 or above) $1,000 every year							
	Public transport fare concession for the elderly $500 every year							
	Contribution from children (monthly assumed amount)							
	0	$500	$800	$1,200				

[a] CSSA was given on family as unit basis and hence difficult to calculate actual amount received by CSSA elderly recipients. The research team understood that in 2012-13, average total monthly amount received by CSSA elderly was around $4,622, of which standard rate for single CSSA elderly was $2,935, the remaining $1,687 included rent and medical allowance.

[b] monthly OALA is $2,200; monthly OAA is $1,135

From the options we received, universal, uniform amount and non-means-tested options, the amount of retirement pension provided for persons with median income showed a net replacement rate varying between 49.9% (Alliance for Universal Pension, male) and 69.9% (Professional Commons, female), with rate depending on monthly amount given and whether transfer of MPF contribution was involved. As for Category II Multi-tiered retirement livelihood protection options, replacement rate provided was similar to existing systems; but these options were for providing an extra tier of allowance for those with lower income and limited assets, and so persons with income lower than the median during working life would show a higher replacement rate (Table 4).

Table 4 Comparison of net replacement rate

	Multiples of income median							
	0.5		0.75		1		3	
	Male	Female	Male	Female	Male	Female	Male	Female
Existing system	62.7%	56.3%	58.4%	58.8%	48.0%	44.3%	27.8%	30.6%
FTU	73.2%	73.0%	62.7%	67.8%	58.9%	61.5%	29.7%	33.9%
Alliance for Universal Pension	68.2%	73.8%	55.2%	63.3%	49.9%	55.5%	23.3%	27.3%
Professional Commons	82.9%	78.5%	72.3%	76.4%	68.5%	69.9%	35.5%	40.1%
DAB	79.7%	77.2%	59.1%	59.6%	50.2%	46.6%	28.6%	31.5%
New People's Party	82.4%	80.6%	58.4%	58.8%	48.0%	44.3%	27.8%	30.6%
Law Chi Kwong	62.7%	73.1%	58.4%	58.8%	48.0%	45.0%	27.8%	30.6%

Sustainability of options

In evaluating sustainability, as the financial expenditure proposed by the multi-tiered protection options was wholly shouldered by the government, hence projection of its sustainability and affordability can be done jointly. The research team would focus our analysis on the universal, uniform amount, non-means-tested options, i.e. all Hong Kong permanent residents reaching a specified age would get a monthly amount. If the monthly amount given was $3,000, expenditure for 2013 would be $37 billion, at 1.7% of the GDP, for 2041 it would be $92.3 billion, at 3.1% of the nominal GDP. If the monthly amount is $4,000, one third increase would result in total expenditure, which is 2.3% of the 2013 GDP and 4.1% of the 2041 nominal GDP.

Although expenditure involved in the universal, uniform amount, non-means-tested options was higher than existing elderly social security system, but source of capital was not solely from the government, hence there was no increase in the recurrent expenditure of the government. What these options asked for is the government's transfer of the recurrent expenditure of elderly social security; and so if the recommended source of capital could materialize, recurrent expenditure would not be increased with the implementation of the options.

But most of these options asked the government for a one-off or regular injection of funds, among them the highest was the FTU option. The government would need to inject more than $270 billion[2], other options suggested a varying amount from $50 billion to $130 billion (Table 5). Generally if the amount of government-injected fund was higher, individuals or companies would bear a correspondingly lesser burden and vice versa.

Table 5 Participation and injection of funds in the Universal, fixed amount and non-means-tested options

Advocating political party/ concerned body	Beginning year of payment / amount (2013 price)	Inflow of expenditure on elderly social security#	Regular extra injection of funds by the government (till 2041)	Extra contribution from employee employer*	Transfer of partial contribution from the MPF*	Increase in profits tax
P1 FTU	2016 $3,250	✓	More than $270 billion	Totalling 1%	Totalling 2%	1%
P2 Alliance for Universal Pension	2013 $3,422	✓	$50 billion at initiation	Nil	Totalling 5%	1.9%
P3 Professional Commons	2017 $3,479	✓	Totalling $130.5 billion	Totalling 5%	Nil	Nil

excluding elderly Disability Allowance (normal and higher) and housing and other allowance in the CSSA system

* according to the minimum and maximum income level for contribution set by each option

[2] Including injection of $200 billion by stage from the Land Fund, investment return from the not-yet-injected portion and 5% of annual fiscal surplus. The research team estimated the total to be $273.6 billion (price at 2013).

Table 6 showed an integrated comparison of the options, if projection was based on original design of the options, only the option from Alliance for Universal Pension would show sufficient balance totalling at $127 billion by 2041.

Projection was restricted by data, it was assumed that the actual income distribution of employed population as well as actual minimum and maximum income level for contribution by employee/ employer remain at 2013 level and would not vary with changes in GDP or actual wage. The research team must point out the limitation of such an assumption: if there would be any change in labour force in Hong Kong, change in demand for different strata of labour due to economic restructuring, change in actual wage in every age, sex and income group, they would all affect actual income distribution of the future Hong Kong employed population. However, it was an extremely hard task to make reasonable prediction of these possible changes within the period of projection.

Projection was also based on assumption that the rate of extra company profits tax remained unchanged at 2013 level, the amount of extra profits taxes remained at 2013 level and did not vary with changes in GDP. The above assumption also had its limitation as introducing extra profits tax could lead to enterprises moving to other places or cause minor changes in Hong Kong's business environment. None of these changes could be accurately predicted.

Table 6 Integrated comparison of sustainability of universal uniform amount non-means-tested options in period of projection (2013-41)

	FTU	Alliance for Universal Pension	Professional Commons
Year of implementation	2016	2013	2017
Old age pension monthly amount (price at 2013)	$3,250	$3,422	$3,479
Inflow from the government			
• Transfer of social security expenditure # (% of 2041 nominal GDP)	1.6%	1.6%	1.6%
• Extra injection of funds (billion, price at 2013)	$270*	$50	$130.5
Total inflow from employee/employer contribution			
• Transfer of MPF contribution (totally a maximum of 10% from both)	2%	5%	Nil
• Total of extra contribution from both	1%	nil	5%
- *Maximum level of income for extra contribution*	No maximum level set	$30,000^ for the contribution transferred from MPF	$80,000
Inflow from Company Profits tax			
• Rate for levying extra profits tax (levied on companies with profits above $10 million)	1%**	1.9%	Nil
Summary of finance situation in 2041			
2041 accumulated balance ($ billion, price at 2013)	($248.5)	$127.0	($116.7)
Post-2041 prospect of balance	poor	quite good	poor
Total expenditure of old age pension in 2041 (% of nominal GDP)	3.3%	3.5%	3.5%

excluding elderly Disability Allowance (normal and higher) and housing and other allowance in the CSSA system

* including injection of $200 billion by stage from the Land Fund, investment return from the not-yet-injected portion and 5% of annual fiscal surplus. The research team estimated the total to be $273.6 billion (price at 2013).

** levied on companies with profits at or above $10 million

^ The original maximum level of income for MPF contribution was set at $25,000. As the maximum income level of AUP option was set at $30,000, even though the option did not propose extra contribution, the actual amount of contribution would increase.

Through actuarial and computer simulated analysis, the research team found that in the period of projection, the key to sustainability (i.e. if income can sustain long term expenditure) of these universal, uniform amount and non-means-tested options was in income (inflow) from various parties, including injection of funds from the government, extra contribution by employers and employees or transfer of contribution from the MPF, and extra income from company profits tax, and whether monthly amount could be given (outflow). We reached the conclusions at Table 7:

Table 7 Relationship of outflow/inflow of the universal, uniform amount and non-means-tested options*

Inflow*	**Inflow**
	Approximate amount continuously given (price at 2013)
Transfer from government expenditure on elderly social security#	$1,400
Every injection of $50 billion	$100
Every 0.5% extra company profits tax levied on companies with profits above $10 million	$120
Every 1% transfer of MPF contribution or extra contribution (employee and employer each shoulders 0.5% contribution)	$300

* assuming implementation from 2013

excluding elderly Disability Allowance (normal and higher) and housing or other allowance in the CSSA system

In simple terms, once an inflow item was confirmed, eligible elders may receive a corresponding amount of retirement protection and be able to do so in a sustainable way during the period of projection. For example, if government injection of funds was $50 billion, extra profits tax was 1%, transfer from MPF totalling 5%, adding expenditure of elderly social security, the monthly amount provided would be:

$100 + $120 x 2 + $300 x 5 + $1,400 = $3,240

If economic condition became unfavourable and there was increased unemployed persons, transfer from MPF contribution would reduce by 10% annually in the long run, then amount provided would be reduced by about 5% i.e. $ 150 to $ 3,090, this would ensure system sustainability during the period of projection[3].

Affordability of options

Analysis of affordability was based on share of expenditure by various parties during period of projection, and to compare the extra expenditure required with existing system. With these data, the government, employers and employees can determine affordability of the options according to individual financial situation.

Burden on the government: the universal uniform amount non-means-tested options all required the government to transfer expected expenses on elderly social security (excluding elderly Disability Allowance and rent and other allowance in elderly CSSA) to the new scheme. At the start of the scheme, all these three options required the government to inject funds, the FTU and the Professional Commons options even asked for regular injection of funds by the government during the implementation period of the scheme. The Professional Commons asked for an average annual injection of $5.2 billion beginning with the year of implementation to 2041 and the FTU asked for an average annual amount of $10.5 billion (Table 8).

Purely from the angle of government injection of funds, these options appeared to suggest a huge amount of funds in the first year and during the period of implementation, apparently more than the multi-tiered retirement protection options of the DAB and the New People's Party. But in the long run, as the multi-tiered retirement protection options required the government to finance all expenditure and so by 2041, government expenditure for the DAB option would total $68.9 billion, and $60.4 billion for the New People's Party option (average annual extra expenditure during period of implementation from 2013 to 2041 is $15.3 billion and $8.1 billion respectively). Therefore the multi-tiered retirement protection options of the DAB and the New

[3] The research team assumed that extra company profits tax would remain unchanged as at 2013 level which was a more conservative assumption and so no adjustment was required.

People's Party would impose an overall higher financial affordability pressure on the government than the universal uniform amount non-means-tested options.

Neither employees nor employers needed to make contribution in the multi-tiered retirement protection options and so needed not afford anything. In the universal uniform amount non-means-tested options, capital was suggested to come from transfer of or extra MPF contribution. Transfer of MPF contribution would bring about reduction in accrued amount in their MPF account and so may be seen as extra charge for employees. Transfer from employer contribution would not create extra expenses for employers and so would not be considered as additional charge for employers. As for extra contribution, the FTU option suggested no contribution from employers or employees at the initial period of implementation but suggested a rate of extra contribution of 0.5% each for employer and employee without maximum income level beginning in 2021. The Professional Commons suggested from the beginning of the scheme a contribution rate of 2.5% each for employee and employer with maximum income level for contribution at $80,000 resulting in employees and employers' shouldering a relatively higher extra amount.

For employers, expenses included first the extra profits tax suggested in some options and second extra contribution apart from MPF (required by the FTU and Professional Commons options); the Alliance for Universal Pension option did not require extra contribution from employers but they need to bear the new rate of profits tax.

The above analysis of affordability assumed that there would not be changes in the options during the period of projection. Once any source of capital could not materialize or encountered changes such as in the new profits tax or reduced contribution by employer and employee, then there would also be changes in affordability of the government, employers and employees.

Table 8 Comparison of affordability of options ($ billion, price at 2013)

	Additional Expenditure[#]			Total Expenditure			Total Pension Output & Management Fees	Cumulated Surplus (Deficit)
	Govern-ment	Employers/ Companies	Employees[&]	Govern-ment	Employers/ Companies	Employees[&&]		
First Year of Commencement								
Existing Elderly SSP				17.6			17.6	
FTU (2016)	56.1	5.4		76.5[@@]	5.4		45.7	108.6
AUP (2013)	50.0[##]	11.1	16.3	67.6[###]	26.8	16.3	42.2	69.6
Pro. Commons (2017)	43.5	19.4	19.2	64.7	19.4	19.2	50.9	52.4
DAB (2013)	7.9			25.5			25.5	
NPP (2013)	4.1			21.7			21.7	
2041								
Existing Elderly SSP				48.5			48.5	
FTU (2016)	0.4	9.0	9.3	48.9[@]	14.9	9.3	100.0	(248.5)
AUP (2013)		11.0	15.2	48.5	25.7	15.2	105.3	127.0
Pro. Commons (2017)		17.7	17.5	48.5	17.7	17.5	107.0	(116.7)
DAB (2013)	20.4			68.9			68.9	
NPP (2013)	12.0			60.4			60.4	
Average annual expenditure during period of projection								
Existing Elderly SSP				32.9			32.9	
FTU (2016)	10.5[*]	8.8[**]	7.7[***]	45.1[*]	13.7[**]	7.7[***]	75.8	(27.9)
AUP (2013)	1.7[^]	11.1	15.8	34.6[^]	26.3	15.8	76.1	184.7
Pro. Commons (2017)	5.2	18.4	18.1	40.3	18.4	18.1	82.4	38.6
DAB (2013)	15.3			48.2			48.2[^^]	
NPP (2013)	8.11			41.0			41.0[^^]	

[#] extra expenditure excluded interest loss from government extra injection of funds
[##] injection of funds in 2012; [###]including injection of $5 billion in 2012
[@] including the investment return of $0.4 billion Land Fund
[@@] including the investment return of $3.4 billion Land Fund
[*]annual average expenditure beginning with paying the amount from 2016 throughout the period until 2041, including a total injection of $59 billion by the government in 2014 and 2015
[**]annual average expenditure beginning with paying the amount from 2016 throughout the period until 2041, according to the FTU option, employer contribution was to start in 2021, but extra company profits tax would be levied in 2014, the average expenditure included these expenses.
[***]annual average expenditure beginning with paying the amount from 2016 throughout the period until 2041, the average expenditure would be lower as the FTU option suggested contribution by employees from 2021
[^]annual average expenditure beginning with paying the amount from 2013 throughout the period until 2041 (a total of 29 years), including injection of $50 billion by the government in 2012
[^^]no management fees
[&]In calculating the additional expenditure of the employees for the pension systems, the amount represented their additional contributions and the transfer of their monthly contributions from the MPF as required by the respective proposals. However, if the transfer of the monthly MPF contributions made by the employers were included, the additional expenditure of the employees would be increased in the first year of implementation (AUP by $15.7B), in 2041 (FTU by $5.9B; AUP, $14.7B), and also in the average amount during the projection period until 2041 (FTU by $4.8B; AUP, $15.3B).
[&&]In calculating the total expenditure, the transfer of the monthly contributions made by the employers, however, were considered as part of the total expenditure committed by the employers to the pension systems.

Robustness of options

The research team has done robustness test on the universal, uniform amount, non-means-tested options. Tests were done under three economic conditions: when economic performance was assumed to be high, expenditure of original social security system would be lower, amount allotted to retirement protection system would also be decreased; at the same time, contribution from employers and employees was assumed to increase by 5%; on the contrary, would decrease by 5%. Baseline for extra profits tax was assumed to be unchanged and stay at the same level under high or low economic conditions.

Table 9 showed the amount of accrued balance and percentage of nominal GDP of the options under different economic conditions at 2041. We found: not much difference in accrued balance because social security transfer would offset the increase or decrease in amount of contribution, but as the GDP showed greater variance under different economic conditions, accrued balance showed a greater difference in percentage of nominal GDP.

Table 9 Tests of robustness of options

Assumption of economic conditions	Accrued balance at 2041 ($ billion, price at 2013)			Percentage of nominal GDP of accrued balance at 2041		
	FTU	Alliance for Universal Pension	Professional Commons	FTU	Alliance for Universal Pension	Professional Commons
Base	(248.5)	127.0	(116.7)	(8.22)	4.20	(3.86)
High	(270.1)	141.6	(103.8)	(8.01)	4.20	(3.08)
Low	(214.2)	125.4	(117.3)	(7.90)	4.63	(4.33)

Actuarial analysis of the five representative options

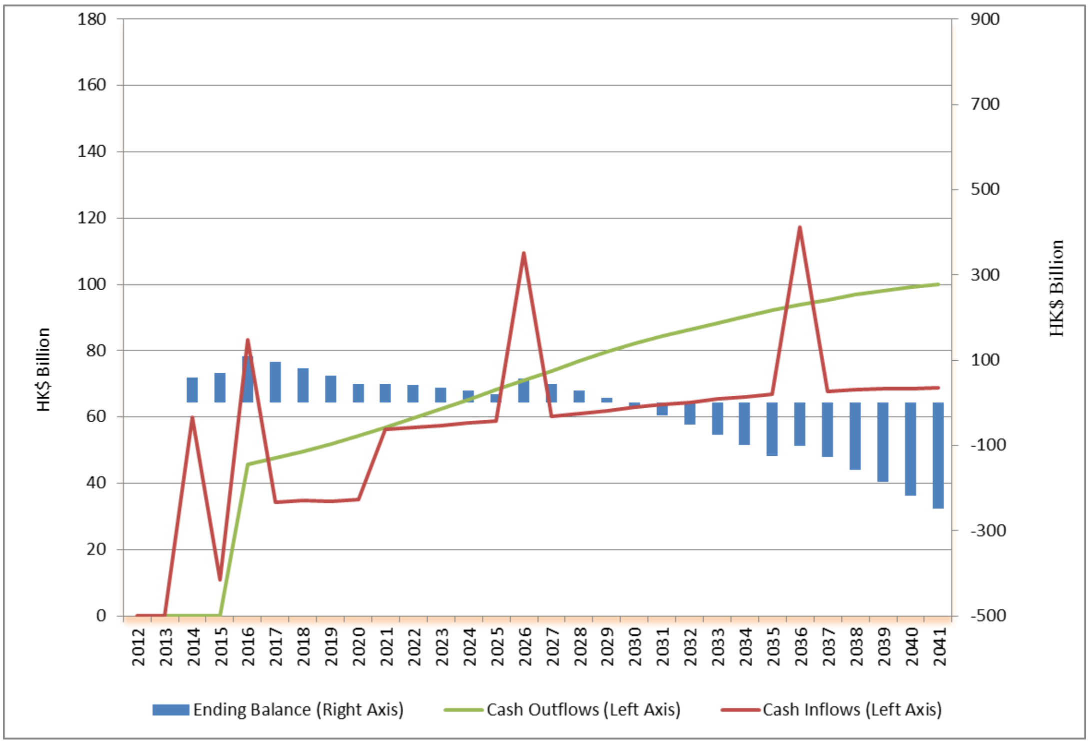
Besides using the World Bank's four criteria of adequacy, sustainability, affordability and robustness for analysis, we have also done further actuarial analysis on the five representative options.

From the angle of amount inflow and outflow, options proposed by the FTU, the Professional Commons and the Alliance for Universal Pension would begin to record structural deficit for the year in 2017, 2024 and 2028 respectively; the Alliance for Universal Pension option would still have balance by 2041, the Professional Commons option would have deficit beginning in 2036 while the FTU option would have deficit as early as 2030. As for options of the New People's Party and the DAB, expenditure was wholly borne by the government and would account for 2.00% and 2.28% respectively of the 2041 nominal GDP.

<u>The FTU option</u>

The FTU option proposed paying a monthly amount of $3,250 (price at 2013) from 2016 which was the lowest among the three options but employee and employer contribution was to begin only in 2021. Source of capital at the initial period of implementation was from government injection of funds and extra 1% of company profits tax. So the balance in the projection period tended to be low and started to show negative balance in 2030 and by 2041 would show deficit as high as $248.5 billion (Figure 1).

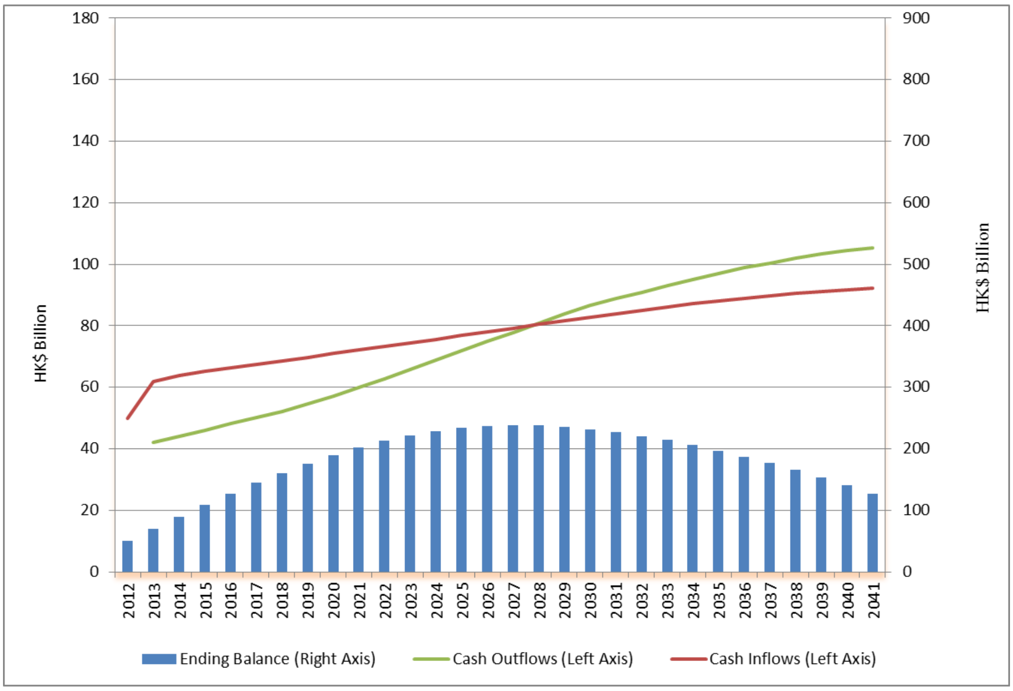
Figure 1 Projection of income and expenses of the FTU option (price at 2013, unit of $billion)



The Alliance for Universal Pension option

The Alliance for Universal Pension projection started in 2013, monthly payment amount would be $3,422 (price at 2013). As the assumed implementation stage was at an earlier time, there would be fewer elderlies at the beginning and so there would be a satisfactory accumulated balance in the initial stage of the projection period, but net inflow would start to show deficit at 2028. There would be an ending balance of $127 billion (Figure 2).

Figure 2 Projection of income and expenses of the Alliance for Universal Pension option (price at 2013, unit of $billion)



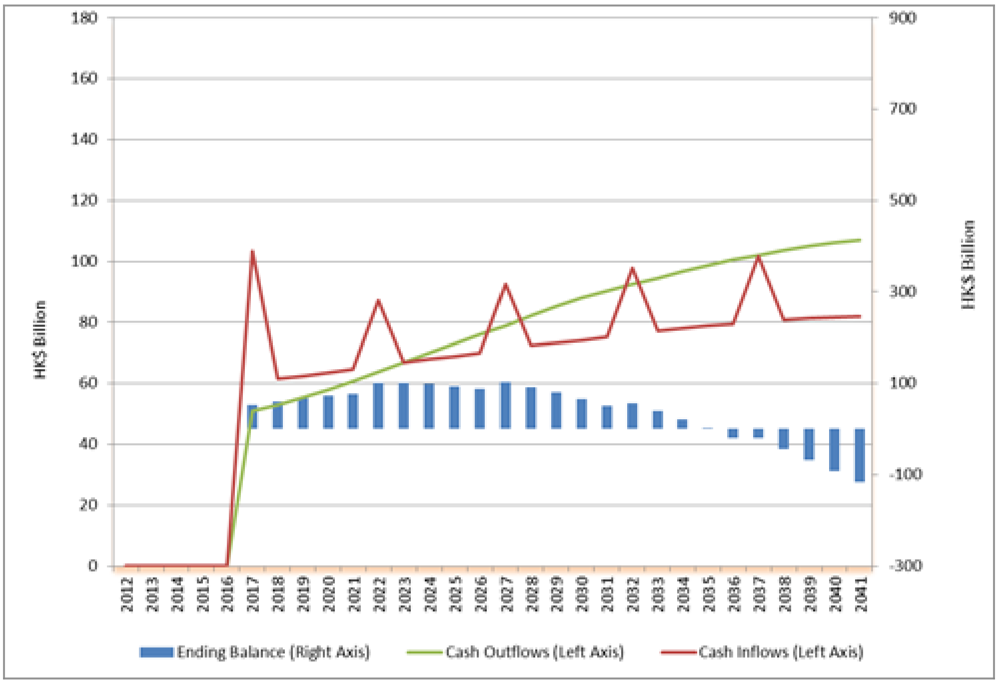
Transfer of part of the MPF contribution by employer and employer was involved in both options of the FTU and the Alliance for Universal Pension. This would reduce the protection function of the MPF; both options suggested levying extra profits tax on companies making a profit of over $10 million[4] which would likely provoke disputes over tax increase and issue of Hong Kong competitiveness.

[4] The FTU option suggested levying extra profits tax on companies making a profit at or over $10 million.

The Professional Commons option

The Commons option proposed to begin in 2017 and monthly payment amount would be $3,479 (price at 2013) which was higher than the other two options. When projected according to the design, negative balance would begin in 2036 and balance deficit would be $116.7 billion (Figure 3) in 2041. The Commons option required increase in contribution by employer and employee and did not require transfer from MPF contribution and so would not weaken the protection function of the MPF. The option did not require levying extra profits tax on companies.

Figure 3 Projection of income and expenses of the Professional Commons option (price at 2013, unit of $billion)



The DAB and New People's Party options

Both options added another tier of protection over CSSA and Old Age Living Allowance. The DAB option showed a lower amount but less stringent conditions on income and assets. Projection results showed that the DAB option involved more extra government expenses than the New People's Party option (Figure 4 & 5).

Figure 4 Projection of income and expenses of the DAB option (price at 2013, unit of $billion)

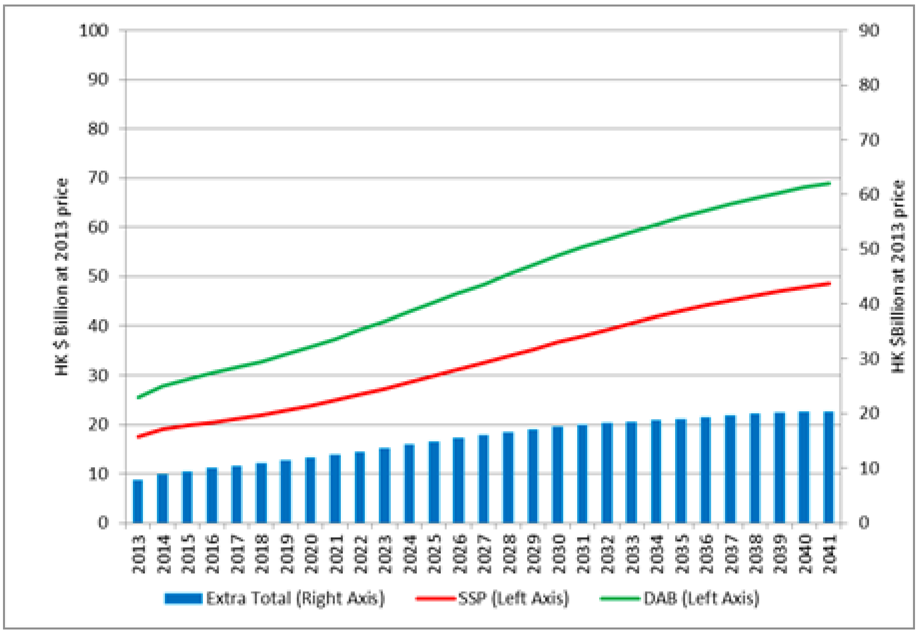
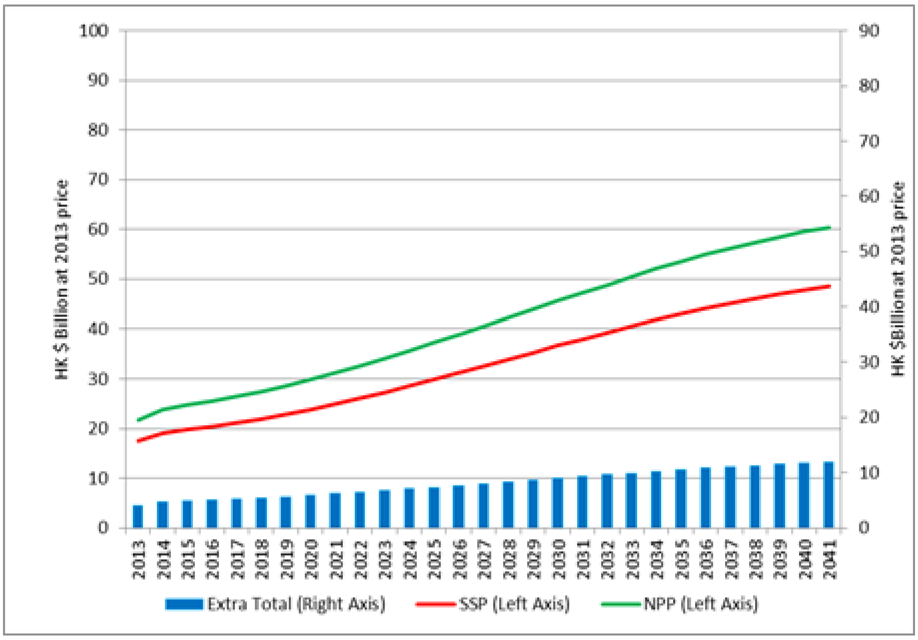


Figure 5 Projection of income and expenses of the New People's Party option (price at 2013, unit of $billion)



(10) Conclusions and recommendations of the research team

With regard to the issue of future development of retirement protection, the research team has considered opinions collected and actual development options from different political parties and concerned bodies. The team was of the view that the government should seriously and discreetly consider whether to set up a kind of regular demo-grant for all Hong Kong permanent residents aged 65 and above. This newly introduced demo-grant should be seen as a right enjoyed by all Hong Kong permanent residents and made up one of the three or five pillars of protection for their old age living. This recommendation was concluded from stringent and scientific analysis of related information:

1. One out of three elderlies is now living under the Poverty Line; the number of elderlies on CSSA has remained stable in the past five years but still 15% of the elderlies are eligible for CSSA showing the gravity of old-age poverty that absolutely cannot be neglected.

2. MPF and ORSO only covered those in employment and those who have no employment record or unstable work are not protected by the MPF; contribution to the MPF began at the end of 2000 and the average amount of provident fund collected by retiring employees now is $250,000; hundreds of thousands of persons with low income were getting only tens of thousands dollars at retirement and some of them were getting even less due to the 'offset', the MPF could not provide these persons with protection for retirement life.

3. The Old Age Living Allowance was introduced in 2013 and by end March 2014 there were around 420,000 eligible elderlies for the allowance suggesting that besides elderly CSSA recipients, elderlies now did not have much assets; both OALA and CSSA were means-tested and best reflected the economic condition of the elderlies and their financial ability to maintain old age living.

4. The coming ten years would be the peak retirement period for 'post-war babies'. People of this particular generation were usually engaged in manufacturing or low-skilled service industry with low income, limited savings and heavy family burden. It was estimated that by the time of retirement, the provident fund they would get

would not exceed $500,000. Thus there would be earnest demand for old age living protection in the coming ten years.

5. With reference to experience of retirement protection development in other countries and regions, and the 'five pillar' concept of the World Bank, though five pillars might not necessarily be in full implementation, Hong Kong would be providing a near 'pillar one' protection should a demo-grant for all Hong Kong citizens be set up.

6. Objective conditions for setting up demo-grant were more mature than before: the government had been spending more than $20 billion annually in recent years on protection of old age living for the elderlies; the contribution system by employees and employers of the MPF was operating smoothly; it was social consensus that elderlies should have independent source of income.

7. Failure for the government to set up the demo-grant would likely perpetuate disputes over retirement protection.

The research team recommends the government to carefully consider setting up of the demo-grant. Yet to materialize, the government has to overcome and solve the following issues and to seek consensus in society:

1. **Conceptual clarification** - as explained before, citizens have different understanding of the term 'universal retirement protection'. Before implementing demo-grant, the government must clarify related concepts and ensure that discussion is about universal old age living protection, and not income-linked retirement protection system practised in developed countries or regions. The research team suggested using the term 'demo-grant' for use in further discussion.

2. **Level of amount of demo-grant** - Among the six projected options, three advocated universal retirement protection, including options from the FTU, Alliance for Universal Pension and Professional Commons. The suggested amount was respectively $3,250, $3,422, $3,479 (price at 2013). Obviously the amount of demo-grant would be the determining factor for the option's adequacy, affordability, sustainability and robustness. The research team is of the view that if

the government is to implement demo-grant, recognition and support must be sought from members of the public regarding the amount of demo-grant to be paid.

3. **Eligibility for demo-grant** - the characteristic of demo-grant is that it is the right of citizens and so should be enjoyed by all citizens who are Hong Kong permanent residents reaching a specified age. From opinions collected, some viewed that persons with substantial assets or regular income should give up the right. The research team suggested the government to refer to the experience of developed countries or regions, and on the basis of universal demo-grant, make modifications which are acceptable to members of the public. As eligibility for demo-grant is not based on a right 'earned' by applicants, it has no portability; so there should be regulation on period of stay in Hong Kong and details may be decided by the government after consultation.

4. **Source of finance for demo-grant** - The research team considered this to be the most difficult problem. The three options for universal retirement protection all suggested, in varying degrees, contribution by employee and employer, or transferring part of the MPF contribution to pay for the demo-grant. Opinions collected indicated that there was clear disagreement over these two sources of capital; the insurance industry was much opposed to transfer of MPF contribution as it would weaken MPF as one of the 'five pillars' of retirement protection; as for extra contribution by employee and employer, inconsistent views were found and most reserved their decision till the new scheme was announced.

5. **Difference between demo-grant and CSSA** - this is another question the government must clarify. Some thought with demo-grant, CSSA for the elderly would not be necessary, but demo-grant and CSSA were actually two different systems: CSSA was a social safety net for the protection of all citizens, items included more than basic livelihood protection, but allowance in housing and medical services. So, even with demo-grant, some elderlies would still rely on CSSA. Demo-grant should be seen as part of the income for applicants. In other words, elderlies aged 65 or above can receive CSSA and demo-grant at the same time, but with the amount of demo-grant deducted from the amount of CSSA, similar to other income of the applicants.

In view of the above difficulties in implementing demo-grant, the research team has considered whether the government should before doing so, first adopt the ‘three-tiered old age living protection’ options of the New People’s Party or the DAB as an alternative. This meant in addition to OAA and OALA, provide a third tier of higher amount for those elderlies with limited assets and income to help alleviate poverty. After careful analysis, the research team observed the following:

1. In adopting the ‘three-tiered old age living protection’ options of the New People’s Party or the DAB, the government would incur in the first year an additional expenditure of more than $4.13 and 7.89 billion respectively, and with the aging population, corresponding expenditure would increase continuously.

2. Capital for ‘three-tiered old age living protection’ options came solely from the government, should there be shortage in government finance and the government has to add in new sources of capital such as asking for employer and employee contribution or raising rate of salaries or profits tax, citizens would likely show strong disagreement.

3. The ‘three-tiered old age living protection’ options are schemes that require full financial responsibility by the government, in future when citizens request raising the amount to improve livelihood of the elderly, the government would face huge group pressure.

4. Even setting up a ‘three-tiered old age living protection’ would not put an end to disputes over universal retirement protection.

Therefore the research team does not think the ‘three-tiered old age living protection’ options are better choices. As for Category III Annuity options, the research team thinks the insurance industry may roll out more conversion schemes from MPF to annuity, but under present circumstances, ‘annuity option’ is not helpful in solving current retirement protection problems.

According to the World Bank's five pillar retirement protection model, retirement protection enjoyed by Hong Kong senior citizens may be expressed in the following table:

	World Bank Five Pillar				
	0	1	2	3	4
Existing retirement protection measures	• Old Age Allowance • Old Age Living Allowance • Disability Allowance • Comprehensive Social Security Assistance		• MPF • ORSO • Civil servant pension (old system)	• Voluntary MPF contribution • Personal savings	• Elderly Health Care voucher • Public transport fare concession for the elderly • Support by children • Informal support
Suggested direction for long-term development	• Disability Allowance • Comprehensive Social Security Assistance	• Universal Demo-grant	• MPF • ORSO • Civil servant pension (old system)	• Voluntary MPF contribution • Personal savings	• Elderly Health Care voucher • Public transport fare concession for the elderly • Support by children • Informal support

Obviously among the five pillars, Hong Kong lacked 'pillar one' which is a kind of retirement living protection enjoyed by all; therefore the research team is of the view that setting up a kind of universal demo-grant should be the major direction in considering the future development of Hong Kong retirement protection. If the government adopts this suggestion and uses it to consult the public and to reach a consensus, it should first study on two issues namely amount of demo-grant and source of capital rather than arrangement of implementation details. Regarding the amount of demo-grant and source of capital, the research team has the following views:

1. **Rate of demo-grant** - the research team considers that the amount may be set at $3,000, the rate is about the basic rate of existing elderly CSSA; we suggest a monthly amount of $3,000 with the purpose of providing of the elderly with a stable source of income but not as their sole income for maintaining livelihood.

The research team believes that the demo-grant would ease the life and mind of Hong Kong elderlies.

2. **Source of capital** - if the government is to set up demo-grant, it may refer to suggestions on source of capital in the options proposed by the AUP, FTU or Professional Commons. The research team has the following views:

    a) If there are many sources of capital, it does not only increase difficulties in future projection work, members of the public would find it hard to understand if the scheme is affordable and sustainable.

    b) If the capital is to come from allotted funds from government reserve such as old age fund suggested by some concerned bodies, there would be a lot of dispute regarding how much is sufficient and would pose a challenge to the government's long term financial plan.

    c) Many concerned bodies have suggested transfer of funds from the MPF but the research team found that this would seriously disrupt the operation of the MPF and would weaken the effect of retirement protection by the MPF.

    d) Opinions collected showed support and opposition to the idea of raising profits tax to pay for demo-grant. Experience in other countries and regions suggested that capital from profits tax is unstable as it fluctuates with the changing economy.

    e) As for getting capital from the government's recurrent expenditure, we have discussed the issue in our analysis of the 'three-tiered old age living protection' options and considered that it is difficult for the government to take up sole financial responsibility. As funds came from the government's recurrent expenditure, it would seriously affect the government's capacity to improve other social services.

    f) Regarding getting capital from extra contribution by employers and employees, opposition comes mainly from employers of small and medium enterprises and the reason being that it would increase operation costs. Opinions from employees showed both support and opposition but the general public was obviously resistant towards extra contribution outside of the MPF.

Based on the above analysis, the research team proposes the following amount of demo-grant and source of capital for reference by the government:

Amount of demo-grant: $3,000 per month

Source of capital:

1. The government is to be responsible for half of the anticipated annual expenditure on demo-grant (amount approximates that spent by the government on Old Age Allowance, Old Age Living Allowance and the standard rate of elderly CSSA).

2. At the beginning of the scheme, the government is to inject a one-off fund of $50 billion.

3. A payroll old age tax is suggested to be introduced, employers and employees would pay according to the employee's level of salary:

   - Employees with salary below $10,000, employers and employees each to pay tax at 1% of the salary (employees with income below $6,500 only employers would pay and employees are exempted);

   - Employees with salary at $10,000 to below $20,000, employers and employees each to pay tax at 1.5% of the salary;

   - Employees with salary $20,000 and above (maximum limit at $120,000), employers and employees each to pay tax at 2.5% of the salary.

Consideration for payroll old age tax

1. The main concern behind the suggestion of introducing payroll old age tax is that it provides a very stable source of capital. Undeniably some employers and employees would use all means to evade paying the tax but it can be regulated by the government through laws and ordinances.

2. The demo-grant is a universal scheme. Besides employers and employees of general private enterprises, the government and government servants are to pay the tax according to salary level. This applies to self-employed persons too.

3. As the level of amount of demo-grant is linked to source of capital, should there be any substantial increase in amount, there would not be easy agreement from employers or employees paying the tax. As such there would not be arbitrary increase in the amount of the demo-grant.

4. The purpose of the different rates in payroll old age tax is to reduce burden on employees of low income and employers of small and medium enterprises. It would also indirectly serve the purpose of narrowing existing disparity in income.

5. Levying the payroll old age tax may be done through existing MPF contribution system thus minimizing administrative fees.

We have also made projection for 2013-2041 (price at 2013, unit of $ billion):

Year	Cash inflow						Cash outflow			Net inflow	Ending balance
	Govt injected funds	Employee/ employer tax payment	Transfer from elderly social security#	Extra profits tax	Interest	Total	Demo grant	Admin Cost	Total		
2013	50	31.44	17.58	0.00	0.0	99.0	36.8	0.24	37.0	62.0	62.0
2014	0	31.64	19.01	0.00	1.2	51.9	38.3	0.24	38.5	13.4	75.4
2015	0	31.82	19.79	0.00	1.5	53.1	40.1	0.24	40.4	12.7	88.1
2016	0	31.90	20.48	0.00	1.8	54.1	41.9	0.24	42.2	12.0	100.1
2017	0	31.89	21.22	0.00	2.0	55.1	43.7	0.24	44.0	11.2	111.3
2018	0	31.82	21.98	0.00	2.2	56.0	45.5	0.24	45.8	10.2	121.5
2019	0	31.73	22.84	0.00	2.4	57.0	47.6	0.24	47.9	9.1	130.6
2020	0	31.60	23.89	0.00	2.6	58.1	49.8	0.24	50.1	8.0	138.7
2021	0	31.46	24.99	0.00	2.8	59.2	52.2	0.24	52.5	6.8	145.4
2022	0	31.29	26.13	0.00	2.9	60.3	54.7	0.24	55.0	5.4	150.8
2023	0	31.05	27.30	0.00	3.0	61.4	57.4	0.24	57.6	3.7	154.5
2024	0	30.81	28.54	0.00	3.1	62.4	60.0	0.24	60.3	2.2	156.7
2025	0	30.60	29.85	0.00	3.1	63.6	62.7	0.24	63.0	0.6	157.3
2026	0	30.44	31.18	0.00	3.1	64.8	65.4	0.24	65.6	-0.8	156.5
2027	0	30.29	32.48	0.00	3.1	65.9	67.8	0.24	68.1	-2.2	154.3
2028	0	30.10	33.95	0.00	3.1	67.1	70.7	0.24	71.0	-3.8	150.5
2029	0	29.91	35.32	0.00	3.0	68.2	73.3	0.24	73.6	-5.3	145.1
2030	0	29.74	36.68	0.00	2.9	69.3	75.7	0.24	75.9	-6.6	138.6
2031	0	29.62	37.99	0.00	2.8	70.4	77.7	0.24	78.0	-7.6	131.0
2032	0	29.52	39.22	0.00	2.6	71.4	79.5	0.24	79.7	-8.4	122.6
2033	0	29.37	40.59	0.00	2.5	72.4	81.3	0.24	81.6	-9.1	113.4
2034	0	29.21	41.84	0.00	2.3	73.3	83.1	0.24	83.3	-10.0	103.4
2035	0	29.08	43.04	0.00	2.1	74.2	84.8	0.24	85.0	-10.8	92.6
2036	0	29.03	44.14	0.00	1.9	75.0	86.4	0.24	86.6	-11.6	81.0
2037	0	29.00	45.09	0.00	1.6	75.7	87.8	0.24	88.0	-12.3	68.7
2038	0	28.96	46.06	0.00	1.4	76.4	89.2	0.24	89.4	-13.0	55.6
2039	0	28.91	46.96	0.00	1.1	77.0	90.4	0.24	90.6	-13.6	42.0
2040	0	28.89	47.78	0.00	0.8	77.5	91.4	0.24	91.6	-14.1	27.9
2041	0	28.93	48.49	0.00	0.6	78.0	92.1	0.24	92.3	-14.3	13.5

excluding elderly Disability Allowance (normal and higher) and housing and other allowance in the CSSA system

The above suggestion has the following features:

1. Indication from results of actuarial projection: according to the suggested amount level, ratio of tax paid by employer and employee, the scheme is affordable and sustainable to a considerable extent in the period of projection. It must be pointed out that at 2026, there would be deficit for the year and balance in 2041 would be reduced to $13.5 billion. The government needs to review the situation in advance.

2. The demo-grant is not to replace elderly CSSA, the amount is not for satisfying all needs of old age livelihood so that society would not expect the amount to increase unceasingly.

3. The demo-grant is a scheme of universal participation and universal benefit, and not one of retirement protection linked to past income, the suggested form of payroll old age tax conveys a meaning of joint responsibility and benefit.

4. The present design leans towards the principle of 'earn-more-bear-more' and 'earn-less-bear-less' and has a moderating effect on existing huge disparity in income distribution.

5. The design is simple and easy to understand and not difficult to operate.

If the government is to implement the above suggestion, consultation of public views should be sought in the following four points:

1. Some opinions showed great resistance to universal benefit and worried that this kind of non-means-tested welfare measure would change the characteristic of Hong Kong capitalism and deviate Hong Kong from the tradition of self-reliance. There were worries that this kind of universal welfare measure allowing equal welfare for those with or without economic needs was unfair. The research team may find such worries to be undue but there was a considerable number of persons holding such a view. The research team thought that apart from keeping the MPF to encourage persons in employment to save for retirement life, practice in Australia and Sweden may be considered - those elderlies eligible for demo-grant may be treated as automatically giving up their right if they have income and assets exceeding specified limits (a very high amount). The research team must point out that since the inception of OAA in 1973, there was always more than 10% of eligible elderlies who did not obtain the allowance irrespective of the amount. Therefore whether the demo-grant is means-tested or not would not affect the overall financial burden; on the contrary, if all citizens, rich or poor, are

entitled to the same welfare or service such as public medical treatment, social harmony and inclusion may be promoted.

2. In the process of collecting opinions, whenever suggestion of employer and employee responsible for the expenditure of demo-grant was raised, some employers would think that the new scheme would bring further burden and some employees also expressed inability to bear responsibility. What is the acceptable level of tax rate? This is the question the government must widely seek consultation on. The research team would like to point out that of the existing number of persons in employment, around 1 million have monthly salary below $10,000 and if tax rate for employer and employee is 1%, then maximum monthly amount would be each $100; around 1.4 million have monthly salary between $10,000 to $20,000, at 1.5% tax rate of employer and employee, monthly amount would be each from $150 to $300 with respect to the salary level.

3. Should the demo-grant be implemented, some have expressed worries that at the promotion of populism the amount would rise unceasingly. They considered people in receipt of welfare to be greedy and political parties or bodies championing people's livelihood would definitely agitate for more. The research team thinks that the government can set up adjustment mechanism for the amount, for example inflation/deflation-based and GDP fluctuation range-linked. Committees comprising representatives from employers and employees may also be set up for monitoring.

4. If the suggestion of demo-grant is accepted, the research team thinks that the government should proceed with the following tasks: seeking consultation from the public on setting up the demo-grant; seeking views from employers and employees regarding the source of capital and introduction of the payroll old age tax; conducting a comprehensive professional actuarial consultancy projection of the suggested demo-grant; conducting an overhaul of the government's planning and responsibilities in its policy for the elderly; mapping out changes involved in legislation and administrative measures when implementing the demo-grant.

Having considered existing political, economic and social atmosphere, the research team is of the view that the proposed demo-grant scheme should be one which can gain wide acceptance from the public. The Commission on Poverty may use this as the basis for discussion and public consultation on future development of retirement protection.

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