

Research Report on Future Development of
Retirement Protection in Hong Kong

A Written Submission to the
LegCo subcommittee on Retirement Protection

The Legislative Council Subcommittee on Retirement Protection invited written submission and oral presentation on “Research Report on Future Development of Retirement Protection in Hong Kong” on October 11, 2014. The report recommended that a monthly demo-grant be made to all elderly Hong Kong permanent residents aged 65 and above, regardless of their economic status.

This written submission mainly focuses on the following aspects:

Immediate Strengthening of the Marketing/Promotion of the Recommended Demo-grant

It seems logical for the government to postpone large-scale publicity or active promotion/marketing of the proposed demo-grant scheme until more public view is sought and government decision made on its implementation. However, the lack of further publicity on the urgency of the issue, the ‘neutral’ stance adopted by the government and the research team led by Professor Nelson Chow in addition to the fact that the issue is relatively complicated (43-page executive summary), it is doubtful on whether the general public and the stakeholders from which consultation is being sought are fully aware and understand fully the details or deliberation of the proposed scheme.

As a result of inadequate publicity, the quality of public views sought may be seriously or adversely affected due to misconception or incomplete information.

As an illustration, the Federation of Hong Kong Industries (FHKI) queried about the financial sustainability of this universal demo-grant scheme including the assumptions made in the research report and whether the scheme is fair or equitable. As the proposed scheme imposes additional economic burden on the employers, it is not surprising that the scheme is opposed by the business sector. However, it is noted that some of the criticism may not be justified or have arisen from misunderstanding or ignorance of some important recommended measures to be adopted before implementation of the scheme such as:

- The recommendation by the research team/research report to seek and conduct “a comprehensive professional actuarial consultancy projection of the suggested demo-grant”. (in addition to the research team’s projection and quantitative assessment)

If the recommendation above is well noted, some degree of the skepticism held by the business sector may be alleviated.

As another illustration of incomplete publicity, some local academics also opposed to the proposed scheme and commented that universal pensions “have not worked or do not function well anywhere in the world”. However, the academics are not aware that some similar schemes function smoothly or operate well in some other countries. Examples are Netherlands, New Zealand and Mauritius.

In view of the above discussion, it is recommended that the government should strengthen the publicity of the proposed demo-grant scheme and clarify the details or the content of the research report with particular reference to the financial viability and the possible impact on the various stakeholders. In fact it is observed that the report also called for the government to seek consensus from society on a number of issues which include but not limited to clarification of related concepts. As the concept of universal demo-grant is quite ‘new’ at least to Hong Kong, it is doubtful if a fair assessment of the proposed scheme can be achieved with the current level of publicity on the issue.

Financial Viability

As mentioned above, there are much skepticism about the financial sustainability of this universal demo-grant scheme. The following are recommended:

- ***Extending the retirement age to 65.*** This will have the effect of increasing the number of employees making contribution to the proposed scheme. Currently the normal retirement age for employees is in the range of 55-60. It is recommended that *the government should set an example by extending the retirement age to 65 as soon as possible.*
- ***Increase the credibility of the scheme.*** The business sector is worried about increasing employer contribution due to the aging workforce and impact of inflation.

The actuarial projection made in the report for 2013-2041 is silent on how the net inflow or ending balance is used. In order to improve the scheme credibility or attractiveness, *it is proposed that some form of investment is contemplated* such as investment in the Hong Kong dollar inflation-indexed bond issued by the Hong Kong Government. The government could also consider tapping the expertise of the Hong Kong Monetary Authority to oversee and manage the investment of a portion of the funds accumulated in the proposed scheme.

● ***Increase publicity to reduce doubt about the financial sustainability.*** The proposed scheme is intended to replace the existing old age living allowance (means-tested) and old age allowance (non-means) and hence *the government will not spend much with the new scheme* at least in the beginning years of implementation. However this fact may have been overlooked by the business sector and the general public and they fear potential increase in profit tax or salary tax.

Other Observations

● In view of the opposition from the business sector, it is useful to point out in the publicity drive that the suggestions about taxation reform such as increased profits tax or capital gains tax in other considered options is not adopted by the proposed universal demo-grant. In other words, ***the government has considered the interest of the business sector in a prudent manner.***

● In view of the strong opposition to the proposed scheme as universal pension regardless of the economic status or asset, ***more publicity should be made on the rationale of not discriminating between the haves and have-nots.*** An argument is that most employees (except those receiving very low income) have to make contribution to the proposed scheme, it is unfair and politically unfeasible to deprive the haves to be eligible for the scheme when they grow old. The other argument could include minimizing administrative fees and staff cost (in checking the income or assets of eligible elderlies). In addition, as pointed out by the research team in the report, there are “always more than 10% of eligible elderlies who did not obtain the old age allowance”. It is reasonable to infer that the eligible elderlies may not apply for the universal demo-grant.

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