Business and Professionals Federation of Hong Kong
香港工商專業聯會

LC Paper No. CB(2)282/14-15(02)

COMMENTS ON THE REPORT FROM THE DEPARTMENT OF SOCIAL WORK AND SOCIAL ADMINISTRATION AT HKU ENTITLED "FUTURE DEVELOPMENT OF RETIREMENT PROTECTION IN HK"

SUBMITTED BY THE STUDY GROUP ON RETIREMENT PROTECTION OF THE BUSINESS AND PROFESSIONALS FEDERATION OF HONG KONG - NOVEMBER 2014

1. The future development of Retirement Protection in Hong Kong is a critically important issue for Hong Kong and we strongly agree with the HKU report that this should be much higher on the government's agenda. Failing this the situation will get steadily worse as the population ages. This will have a significant negative effect on the quality of life of Hong Kong's senior citizens.

2. We support the HKU report's central recommendation that the government should guarantee a certain level of income for all HK people over 65.

3. A base level of about $4,000 per month is appropriate for 2014 and this should be increased with inflation in future years. The base level should however be varied according to the person's specific situation – for example, living alone or with others and access to public housing etc.

4. We do NOT support the proposal in the HKU report for a so called "universal pension". It is wasteful of Government resources to make payments to those who do not need them. The increases in taxes suggested in The HKU report are only required to enable payments to those who do not need them. It makes better sense to focus Government support on those in need. If the payment is universal, the certain result is that the needy will receive much less. Universality is not sustainable even based on the HKU numbers and it diverts resources in the wrong direction.

5. The government should only make payments to those people whose net assets (including property owned and MPF balances) are less than a specified amount, perhaps $500,000. For those whose only significant asset is property, the government should encourage the use of Reverse Mortgages.

6. The government should pay qualifying recipients a base payment of about $4,000 per month and discontinue CSSA for the elderly, OAL, fruit money etc. – this is in line with the HKU report but without the universality.

THE NEED TO IMPROVE MPF

The major thrust of pension reform should focus on minimizing the number of elderly that, in the future, will require the government support outlined above. In other words, the big push should be to enable the vast majority of Hong Kong elderly to be self-reliant.

Hong Kong has a mandatory provident scheme that is an excellent base to accomplish this since it enforces lifetime savings. It has been much maligned by people who do not understand it and there needs to be much increased education on MPF in the community. Some fail to recognize that the scheme is still new and will take time to deliver meaningful sums. But MPF needs some major improvements - some of the changes required are fairly clear but it will take political will to put them through.

We recommend the following changes to MPF:

1. Eliminate all offsets to MPF. 10% of pay should go into MPF for all workers – from first dollar.

2. This requires the elimination of the offset for severance allowances - a factor which destroys accumulation of MPF funds for many workers.

3. Maintain the minimum salary for employee contributions. However, for those below that level, the government should contribute the missing 5% into the employee's account. This Government contribution is in effect a negative income tax. However, in the long run, this will be a minimal cost to Government because these lower paid employees would now be far less likely to require Government support in retirement.

4. Cap MPF fees at about 75% of current average levels. Force providers to offer low cost options such as ETFs (Tracker funds) whenever they offer more expensive funds. The MPFA should also regularly publish the average fees of all providers so that members can see if they are paying reasonable fees.

5. Limit the amount of MPF lump sum that can be taken at retirement. A minimum of about $500,000 (inflation adjusted) should be left in the fund which MPF members can then draw down at about $4,000 per month, hence ensuring they do not need Government support for many years.

6. Gradually increase MPF contributions from 2016 to 2021 from 10% to 15%. 15% is still well below the level required to pay a good pension but should provide enough to cover the basics of retirement and avoid the need for government support.

SUMMARY

1. Introduce an income floor for those elderly that have been unable to accumulate sufficient resources for retirement

2. Improve MPF to provide a meaningful pension for as many HK workers as possible. This will increase self-reliance and at the same time lead to a major reduction in the number of elderly requiring government support.

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