

For discussion on
22 February 2016

Legislative Council Panel on Welfare Services

Relationship between the Current Social Security and Retirement Protection Systems

Purpose

This paper briefs Members on the sections related to social security in the “Retirement Protection Forging Ahead” consultation document.

Background

2. On 22 December 2015, the Commission on Poverty (CoP), which is chaired by the Chief Secretary for Administration, launched a six-month public engagement exercise on retirement protection. It aims to gauge public views on how to improve Hong Kong’s retirement protection system. The consultation document and executive summary entitled “Retirement Protection Forging Ahead”, as well as a related pamphlet were published on the same day. These publications were also distributed to Members through the Secretariat of the Legislative Council (LegCo).

The Underlying Principles of the World Bank’s Multi-pillar Retirement Protection System

3. As set out in Chapter 3 of the consultation document, in face of the challenges brought by an ageing population, many places around the world have made dedicated efforts to reform their retirement protection systems to enhance sustainability. To help these places conduct systematic analyses and comparisons, the World Bank proposed, in 1994, a three-pillar retirement protection framework and refined it in 2005 by proposing a more detailed classification of five pillars.

4. Based on the multi-pillar model advocated by the World Bank, the retirement protection system in Hong Kong is made up of a number of

schemes. It comprises four pillars that are complementary to one another in serving the needs of different groups of elderly people. The table below is a summary of Hong Kong's retirement protection system expressed in terms of the World Bank's framework –

	Five Pillars of the World Bank	Retirement Protection System in Hong Kong
Zero pillar	Publicly-funded pension or social security schemes (non-means-tested or means-tested)	Comprehensive Social Security Assistance (CSSA) ¹ ; Old Age Living Allowance (OALA); Old Age Allowance (OAA); Guangdong Scheme; Disability Allowance (DA)
First pillar	Publicly-managed mandatory contributory plans (largely financed on a pay-as-you-go basis)	Nil
Second pillar	Privately-managed mandatory occupation or private contributory pension plans	Mandatory contributions to the Mandatory Provident Fund (MPF) schemes; occupation retirement schemes; civil service pensions; Grant/Subsidised Schools Provident Funds
Third pillar	Voluntary contributions or savings to occupational or private pension plans	Voluntary contributions to MPF schemes; retirement savings-related insurance
Fourth pillar	Public services, family support and personal assets	Public housing; public healthcare; residential and community care services; elderly health care vouchers; public transport fare concessions; family support; self-owned properties

¹ Including the Portable CSSA Scheme.

The Objectives of the Current Retirement Protection System in Hong Kong

5. Chapter 3 of the consultation document also points out that those who have the ability to work should be self-reliant and that the Government's role is to provide assistance for the elderly people who cannot support themselves financially. In other words, the working population save and plan for their and their families' retirement life through mandatory contributions to MPF schemes, voluntary savings, retirement investments, etc. (i.e. the second, third and fourth pillars). The Government, on the other hand, makes use of tax receipts to redistribute social security schemes (i.e. the zero pillar), and heavily subsidising services like public housing, healthcare and residential and community care, etc. to meet the daily needs of the elderly people (i.e. the fourth pillar). This arrangement may better ensure the long-term sustainability of the system in the light of the ageing population and the need to maintain a simple tax regime with low tax rates.

6. The ensuing paragraphs will focus on the social security system under the zero pillar.

Social Security System under the Zero Pillar in Hong Kong

7. As set out in Chapter 4 of the consultation document, the zero pillar in Hong Kong is a multi-tiered social security system. The main function of most of the schemes is to alleviate poverty by serving as a safety net for those elderly people who are unable to have adequate retirement protection under other pillars or by supplementing their living expenses. The existing multi-tiered system covers the CSSA, OALA, OAA, Guangdong Scheme and DA to support different elderly groups.

8. At present, the various assistance programmes under the zero pillar have benefited about 73% of elderly people aged 65 or above in Hong Kong, comprising the CSSA (13%), OALA (37%), OAA (19%)² and DA (3%) (please refer to the table below for details). The take-up rate of those aged 70 or above is even higher at 87%. The estimated expenditure for 2015-16 is \$26.3 billion. All the aforementioned assistance programmes are non-contributory and funded by general revenue.

² Excluding elderly beneficiaries of the Guangdong Scheme as most of them are not included in the Hong Kong resident population.

Multi-tiered elderly social security system	Monthly payment³	Number of elderly recipients aged 65 or above
Means-tested		
CSSA	\$5,548 ⁴	around 150 000
OALA	\$2,390	around 430 000
Non-means-tested		
OAA	\$1,235	around 220 000
DA	\$1,580 (Normal DA) \$3,160 (Higher DA)	around 30 000
Total		around 820 000* (around 73% of the elderly population in Hong Kong)

* Figures may not add up due to rounding.

Elderly CSSA (Estimated Expenditure for 2015-16: \$9.4 billion)

9. The purpose of the CSSA is to provide a safety net for those who cannot support themselves financially so as to meet their basic needs. The amount of payment is the highest among all social security schemes. Although the CSSA Scheme is not specifically designed for elderly people, nearly 50% of CSSA recipients (or about 170 000) are elderly people aged 60 or above⁵, indicating that the CSSA is providing financial protection for needy elderly people in their old age. Higher standard rates, special grants and supplements are provided for elderly recipients under the CSSA to meet their basic needs and other special needs (such as special diet, medical items, etc.). CSSA recipients are also entitled to free services at public hospitals and clinics.

10. Designed to help those who are unable to support themselves, the CSSA is subject to means-testing. To ensure that limited resources are

³ The amount of payment is the level starting from 1 February 2015. In accordance with the established adjustment mechanism, the relevant monthly rates would be adjusted upwards by 4.4% starting from 1 February 2016. The above-mentioned adjustments will take effect after approval by LegCo is obtained.

⁴ According to the consultation document, the average monthly CSSA payment for the elderly singleton aged 60 or above (excluding recipients of the Portable CSSA Scheme) is roughly estimated to be \$5,548.

⁵ Under the CSSA Scheme, persons aged 60 or above are regarded as elderly people and they are not required to join the Support for Self-reliance Scheme as other able-bodied CSSA recipients. There are about 150 000 CSSA recipients aged 65 or above.

targeted towards the most needy persons, the criteria of the means test should not be lenient. Means tests are conducted on a household basis, which is in keeping with the concept of promoting mutual support among family members. The existing (since 1 February 2016) asset limits (excluding owner-occupied properties) under the CSSA for elderly singletons and two-person elderly households are \$45,500 and \$68,000 respectively. The consultation document points out that taking into account all CSSA cases involving elderly recipients, and elderly person may receive a monthly CSSA payment of about \$5,100 on average whereas an elderly singleton may receive \$5,548.

11. The Portable CSSA Scheme was implemented in Guangdong in 1997 and extended to Fujian in 2005. As at end-December 2015, the Scheme provided cash assistance to some 1 700 elderly CSSA recipients who chose to retire in Guangdong or Fujian⁶.

12. Members of the CoP consider that the comprehensive and targeted assistance available under the CSSA is tailor-made to meet the basic needs of elderly people. The role of the CSSA as a safety net of last resort cannot be replaced. Nevertheless, the CoP is of the view that there is still room for further improving the CSSA system. Some members suggest that the CSSA payment level should be reviewed. Some see the need for reviewing the arrangement of requiring family members to make a declaration if they are unable to provide for the daily needs of the elderly members concerned. The feasibility of income and assets declaration on an individual basis should be explored, and the impact of the relevant measures on family policies and public finances be assessed. However, on the other hand, some members note that in all types of households, the average allowance received by CSSA households is higher than the average expenditure of non-CSSA households in the lowest 25% expenditure group in Hong Kong. Given that the CSSA for the elderly people is part of the CSSA system, the Government should consider whether any contemplated changes will adversely affect the well-established system and prudence must be exercised before deciding whether to introduce changes.

⁶ The elderly people under the Scheme may receive the monthly standard rates and the annual long-term supplement. Depending on the elderly's entitled amount of standard rate, each elderly person may on average receive monthly assistance ranging from \$3,300 to \$5,600 at present. After reaching its peak of about 3 300 elderly recipients in 2006-07, the number of recipients under the Scheme has since been falling to about 1 700 as at end-December 2015.

OALA (Estimated Expenditure for 2015-16: \$12.8 billion)

13. Launched in April 2013, the OALA is the first major poverty alleviation measure implemented by the current-term Government. This allowance is specially designed for those elderly people aged 65 or above who have financial needs but are not able or willing to apply for the CSSA. The OALA payment serves as a subsidy for their living expenses. The means test for the OALA is more lenient than that for the CSSA, and provide for different asset limits for single persons and couples. The current (starting from 1 February 2016) asset limit for single persons is \$219,000 and that for couples is \$332,000. Applicants are also required to meet an income limit. The OALA currently provides eligible applicants with a monthly supplement of \$2,390. If an elderly couple receives the allowance, they will receive a monthly payment of \$4,780⁷ in total.

14. As the assessment of financial situation of an applicant will only take into account the assets and incomes of the applicant and his/her spouse (if the applicant has a spouse), there is no need for the applicant to declare the assets and incomes of his/her family members. Even if financial support is provided by family members for the applicant, such support will not be regarded as income in the means test and will not reduce the allowance payable to the eligible elderly applicant. As at end-December 2015, there were about 430 000 elderly people or almost 40% of the elderly population receiving the OALA. It has proven to be effective in lowering the elderly poverty rate, in addition to strengthening the retirement protection function of the social security pillar.

15. Among the some 430 000 OALA recipients, about 80% indicated that they had no income (excluding support from family members), and most of the recipients claimed having limited assets. About 50% of the OALA singleton recipients owned assets of a value not exceeding the asset limit for CSSA elderly singleton recipients.

16. According to the poverty data in 2014, about 20 000 elderly OALA recipients living below the poverty line indicated that they still had financial needs. Some members of the CoP hold the view that the OALA should be enhanced to provide better support for these elderly

⁷ The amount of OALA payment is the level starting from 1 February 2015. In accordance with the established adjustment mechanism, the relevant monthly rate will be adjusted upwards by 4.4% starting from 1 February 2016, i.e. the payment will be increased to \$2,495 per month. If an elderly couple receives the allowance, they will receive a monthly payment of \$4,990 in total. The above-mentioned adjustment will take effect after approval by LegCo is obtained.

people with financial needs. The CoP generally agrees that using the OALA as a platform to give more support to the poor elderly is a policy direction worth exploring.

OAA (Estimated Expenditure for 2015-16: \$2.9 billion)

17. Elderly people reaching the age of 70 may apply for the OAA even if they have some assets or income. Commonly known as “fruit money”, the OAA was launched in the 1970s to help the elderly people meet their special needs arising from old age. Applicants of the OAA are not required to pass any means test. The monthly payment to the OAA recipient is \$1,235⁸. With the introduction of the OALA, the OAA has become an allowance for those elderly people without financial needs to meet their special needs arising from old age. It can also be regarded as a token of the community’s appreciation of these elderly people, and it has become clearer that poverty alleviation is not OAA’s intended purpose. The CoP, therefore, agrees that the OAA will not be included in the present review. However, we must not overlook the importance of this allowance as a form of substantive financial assistance to the some 220 000 elderly beneficiaries (as at end-December 2015).

Guangdong Scheme (Estimated Expenditure for 2015-16: \$0.3 billion)

18. Elderly people who choose to reside in Guangdong may join the Guangdong Scheme. The amount of payment they receive is the same as the OAA. Similar to the OAA, there is no means test for elderly applicants aged 70 or above. For elderly people aged between 65 and 69, they are required to pass a means test (with the same asset and income limits as those for the OALA). As at end December 2015, the Scheme benefited about 16 000 elderly people who chose to retire in Guangdong.

DA (Estimated Expenditure for Elderly People Aged 65 or above for 2015-16: \$0.9 billion)

19. Subject to the fulfilment of the relevant eligibility criteria, elderly people in poor health conditions may apply for the DA. This allowance aims at helping those with severe disabilities to meet the special needs arising from their disabilities. There is no means test for applicants. Although the DA is not specially designed for elderly people,

⁸ The amount of OAA payment is the level starting from 1 February 2015. In accordance with the established adjustment mechanism, the relevant monthly rate will be adjusted upwards by 4.4% starting from 1 February 2016, i.e. the payment will be increased to \$1,290 per month. The above-mentioned adjustment will take effect after approval by LegCo is obtained.

about 35 000 elderly people were receiving the allowance as at end-December 2015 owing to their disabling conditions. The amount of monthly DA payment is \$1,580 (Normal DA) or \$3,160 (Higher DA)⁹, which is higher than the OAA. Compared with the OAA, the DA provides higher rates of allowance to elderly people with severe disabilities. As the DA is not aimed at providing assistance for the poor elderly people, the CoP agrees that this allowance will not be included in the present review¹⁰.

Advice Sought

20. Members are invited to note and comment on the content of this paper.

Labour and Welfare Bureau
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⁹ The amounts of DA payments are the levels starting from 1 February 2015. In accordance with the established adjustment mechanism, the relevant monthly rates will be adjusted upwards by 4.4% starting from 1 February 2016, i.e. the monthly rate of Normal DA will be increased to \$1,650 per month and the Higher DA will be increased to \$3,300 per month. The above-mentioned adjustments will take effect after approval by LegCo is obtained.

¹⁰ In February 2013, the Labour and Welfare Bureau set up the “Inter-departmental Working Group on Review of the Disability Allowance” (the Working Group) to review the eligibility criteria for the DA. The Working Group has completed its work and put forward nine recommendations to provide further support for persons with disabilities. The Working Group briefed this Panel on 15 February 2016.