

For discussion on
30 December 2015

Legislative Council Panel on Welfare Services
Subcommittee on Retirement Protection
“Retirement Protection Forging Ahead”
Consultation Document

Purpose

This paper briefs members of the Subcommittee on the main contents 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 Legislative Council Secretariat on the same day.

Unique Features of this Consultation

3. This consultation has several unique features –
- (a) The consultation is being carried out under the name of the CoP. The stance and contents reflect the views of different members of the CoP. For selected controversial issues on which consensus cannot be reached, the different views have been presented in full and faithful terms in the consultation document.

- (b) On whether the “regardless of rich or poor” principle or the “those with financial needs” principle should be adopted, the consultation document provides comparable simulated options, together with a large volume of data to help make meaningful comparisons in terms of the increased financial commitments and the impact on public finances to initiate rational and pragmatic discussion.
- (c) As a responsible government, the Government has to clearly explain its position to Hong Kong people. In a nutshell, the Government has reservations over any options that are not means-tested and apply equally to all the elderly regardless of being rich or poor. Nonetheless, the Government agrees that the existing retirement protection system has room for improvement and does not wish to see our retirement protection efforts coming to a standstill.
- (d) The CoP will make good use of this six-month period to listen to a wide cross-section of public views, particularly from young people, through various channels, including social media, etc.

4. The scope of this consultation is comprehensive. Apart from addressing the core issue on whether the “regardless of rich or poor” principle or the “those with financial needs” principle should be adopted to provide better protection for the elderly, the consultation document also reviews the operation of other pillars. Another contentious issue which needs to be addressed is the so-called “offsetting” arrangement of the Mandatory Provident Fund (MPF) Scheme.

5. Apart from the social security pillar and the MPF pillar, there is ample room for discussion on other pillars. These include possible policy means to further encourage voluntary savings to complement the MPF Scheme which does not cover the non-working population, and the possibility of introducing an annuity scheme or issuing more retail bonds with a longer term to maturity to help ensure better living for the elderly. In addition, with more and more elderly people having self-owned properties, consideration should be given to helping them derive income from their properties (e.g. through reverse mortgage) to increase retirement income.

Specific Contents of the Consultation Document

6. When drafting the consultation document, the CoP made reference to the analyses and proposals in the research report completed by the research team led by Professor Nelson Chow (the Report), views expressed in the community after the release of the Report, and the discussion among members of the CoP in the past. The CoP also reviewed the existing retirement protection system in Hong Kong and studied the experience of the World Bank and other overseas jurisdictions. Based on the latest population and labour force projection data, the CoP updated and projected the possible impact of different options on our public finances, and estimated the additional burden to be borne by employers and employees for the next 50 years.

7. Chapter 1 of the consultation document gives an overview of the various chapters in the consultation document. By citing the latest population and labour force projections, Chapter 2 of the consultation document gives an account of the challenges posed by an ageing population and shrinking workforce to the sustainability of public finances and our retirement protection system. The chapter also discusses issues of the responsibility of providing retirement protection and elderly poverty.

8. Chapter 3 discusses the multi-pillar model advocated by the World Bank and Hong Kong's multi-pillar system. It also attempts to identify the elderly and other groups of people in need of our further attention. Besides, it covers the general trends of retirement protection reforms in overseas jurisdictions.

9. Chapter 4 examines the current situation of the zero pillar (social security) and the fourth pillar (public services, family support and personal assets) in Hong Kong, while Chapter 5 accounts for the second pillar (mainly the MPF System) and the third pillar (voluntary savings). These two chapters also summarise the improvement proposals put forth by the CoP in respect of each pillar.

10. Chapter 6 makes use of two simulated options, one under the "regardless of rich or poor" principle and one under the "those with financial needs" principle, for comparison and analysis. The simulated "regardless of rich or poor" option has been drawn up based on the payment level and disbursement criteria of the "Demo-grant" recommended by the Report, while the analysis of the "those with financial needs" principle is based on a simulated option of enhancing the

Old Age Living Allowance. This chapter also covers a simple analytical framework, facilitating the comparison of the increased expenditure of the two simulated options, their respective implication on public finances, additional commitments to be borne by employers and employees, and the cost-effectiveness in poverty alleviation, etc. Besides, this chapter sets out the Government's position. It must be stressed that this simulated option is not a concrete policy proposal put forth by the Government. Rather, it is only an illustration to facilitate comparison with the simulated "regardless of rich or poor" option and to stimulate discussion.

11. Chapter 7 aims to invite response and feedback by raising specific questions to aid discussion.

12. There are six annexes to the consultation document. Annex 1 sets out the terms of reference and membership of the CoP. Annex 2 briefly accounts for the reform trends of overseas retirement protection systems. Annex 3 sets out the background information relating to severance payment, long service payment and "offsetting" arrangement.

13. Annexes 4 and 5 are technical documents. Based on the latest population and labour force projections, Annex 4 gives an account of the technical details and results of the projected financial commitments for the simulated "regardless of rich or poor" and "those with financial needs" options in the next 50 years. Adopting the latest population and labour force projections, the projection framework used in the Report and the financing arrangements proposed by the respective options, Annex 5 sets out the updated financial assessments for options proposed by stakeholders in the Report (comprising three "regardless of rich or poor" proposals and two "those with financial needs" proposals), as well as the "Demo-grant" proposal.

14. Annex 6 provides details of the public annuity scheme. This is one of the stakeholders' proposals which has been mentioned but not dealt with in the Report.

Public Engagement Exercise

15. The CoP appeals to all members of the community to express views in the six-month public engagement exercise, which includes consultation with the Legislative Council and the 18 District Councils, chambers of commerce, trade unions and concern groups, etc. The Government will also organise district forums and focus groups, etc.

Advice Sought

16. Members of the Subcommittee are invited to note the content of this paper.

Labour and Welfare Bureau
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