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Subcommittee on Retirement Protection

Background brief prepared by the Legislative Council Secretariat for the meeting on 23 November 2016

Purpose

This paper provides background information on various committees of the Legislative Council ("LegCo") formed to study the subject of retirement protection and related issues.

Background

2. According to the updated set of population projections 2015-2064 released by the Census and Statistics Department in September 2015, the proportion of elderly persons aged 65 and over (excluding foreign domestic helpers) is projected to rise markedly from 15% in 2014 to 36% in 2064. Population ageing is expected to be most rapid in the coming 20 years with the proportion of over 65 years old reaching 23% in 2024 and 30% in 2034. This is mainly attributable to the post-war baby boomers entering old age. Towards the end of the projection period, the proportion of the elderly will stabilize as the baby boomers gradually pass away.

3. According to the Administration, based on the World Bank's multi-pillar model,¹ the retirement protection system in Hong Kong is

1 The World Bank issued a report on "Old Age Income Support in the 21st Century: An International Perspective on Pension Systems and Reform" ("the Report") in 2005, and proposed to add two pillars to the three-pillar model, i.e. (a) a non-contributory basic pension plan financed by the Government; and (b) non-financial support including access to informal support (e.g. family support), other formal social security programmes (e.g. healthcare and/or housing), and other individual financial and non-financial assets (e.g. home ownership and reverse mortgages where available). The World Bank reiterated in the Report that a multi-pillar retirement protection model can provide the elderly with the needed retirement protection more effectively than a single pillar model. The Report also pointed out that any recommendations to improve the retirement protection scheme should take into consideration the actual situation of the place.

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:

- (a) *zero pillar*: publicly-funded social security system (comprising the Comprehensive Social Security Assistance Scheme, the Old Age Allowance, Old Age Living Allowance and Disability Allowance);
- (b) *second pillar*: mandatory contributions to the Mandatory Provident Fund ("MPF") schemes and other occupation-based retirement schemes;
- (c) *third pillar*: voluntary contributions to the MPF schemes, retirement savings-related insurance, etc.; and
- (d) *fourth pillar*: public housing, healthcare and welfare services, family support and personal assets.

4. As announced in the 2013-2014 Budget Speech, the Financial Secretary appointed the Working Group on Long-Term Fiscal Planning in June 2013 to explore ways to make more comprehensive planning for public finances to cope with the ageing population and other long-term commitments of the Government.² The Working Group issued its Phase One Report in March 2014 and the Phase Two Report in March 2015 respectively. The Working Group highlighted the huge pressure that an ageing population and anticipated slower economic growth would put on public finance. It recommended, among others, that the Government should contain the growth of government expenditure and set up a Future Fund or saving schemes for the future generation.

5. A consultancy team led by Professor Nelson CHOW, which was commissioned by the Commission on Poverty ("CoP"), commenced its study on retirement protection in May 2013. The consultancy study aimed to assess various proposed retirement protection schemes on the basis of the multi-pillar approach advocated by the World Bank and make recommendations on the way forward. The consultancy team set out its findings and recommendations in its report entitled "Future Development of Retirement Protection in Hong Kong" which was submitted to CoP on

2 The Working Group, led by the Permanent Secretary for Financial Services and the Treasury (Treasury), aims to assess, under existing policies, the long-term public expenditure needs and changes in government revenue, and to propose feasible measures with reference to overseas experience. The Executive Summary of the report of the Working Group can be found at <http://www.legco.gov.hk/yr13-14/english/fc/fc/papers/fcfc-47-e.pdf>.

20 August 2014 and made public on the same day.³

6. CoP launched a six-month public consultation exercise on retirement protection⁴ from 22 December 2015.

Subcommittee on Retirement Protection under the Panel on Welfare Services in the Fourth LegCo

7. In the Fourth LegCo, the Panel on Welfare Services ("WS Panel") appointed a Subcommittee on Retirement Protection in January 2011 to study issues relating to the protection of retirement life of all people, and to follow up on the proposal of setting up and implementation of universal retirement protection for all people in Hong Kong.

8. Upon completion of its work, the Subcommittee reported to the WS Panel on its deliberations and recommendations in May 2012.⁵ The Subcommittee recommended that the Government should make public all the findings of the studies conducted by the Central Policy Unit on the subject of retirement protection to facilitate public discussions; the next Government should set up a dedicated task force to study the subject matter, with a view to drawing up a concrete timetable for the launch of an extensive public consultation on the options and implementation details, and formulating concrete execution plans in the first year of tenure; and the WS Panel should follow up the matter in the next term.

Appointment of relevant subcommittees in the Fifth LegCo

Subcommittee on Retirement Protection appointed by the WS Panel

9. To enable a more focused discussion on the subject of retirement protection, the WS Panel agreed to appoint a Subcommittee on Retirement Protection in the Fifth LegCo. According to its terms of reference, the Subcommittee would study issues relating to the retirement life of all people, and to follow up on the proposal of setting up and implementation of universal retirement protection for all people in Hong

3 The Research Report can be found at http://www.legco.gov.hk/yr13-14/english/panels/ws/ws_rp/papers/ws_rp0829-su m20140820-e.pdf.

4 The consultation document entitled "Retirement Protection Forging Ahead" can be found at <http://www.rp.gov.hk/>.

5 The deliberations of the Subcommittee are detailed in its report (LC Paper No. CB(2)1942/11-12), which is available at the LegCo website at http://www.legco.gov.hk/yr11-12/english/panels/ws/ws_rp/reports/ws_rpcb2-1942-e.pdf.

Kong. The Subcommittee commenced work in February 2014 and reported its deliberations and recommendations to the Panel in July 2016.⁶

10. The Subcommittee noted that CoP had launched a six-month public engagement exercise on retirement protection from 22 December 2015. In its consultation document, CoP had put forth two simulated options, one under the "regardless of rich or poor" principle and the other under the "those with financial needs" principle, and compared their increased expenditure as well as the impact on public finances. Members were advised that 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 reviewed the operation of other pillars for retirement protection. Another contentious issue which needed to be addressed was the so-called "offsetting arrangement" of the MPF Scheme.

11. According to the Administration, CoP would make good use of the public consultation exercise to listen to a wide spectrum of public views on how to improve the retirement protection system in Hong Kong. The Labour and Welfare Bureau ("LWB") had commissioned an independent consultant to collate, consolidate and analyze all the views received during the public consultation exercise. It was expected that the consultant would submit a report to CoP for further consideration by the end of 2016. The Government hoped to set a policy direction for the future retirement protection within the current term of Government.

12. In its report to the WS Panel, the Subcommittee recommended that the Administration should:

- (a) tackle the challenges of ageing population and improve the existing retirement protection system, including the social security system and the MPF system, without further delay;
- (b) make public all the views collected during public consultation exercise launched by CoP on the future direction on retirement protection and the analysis of the independent consultant commissioned by LWB; and
- (c) formulate a concrete execution plan for retirement protection within the current term of Government.

⁶ The deliberations of the Subcommittee are detailed in its report (LC Paper No. CB(2)1871/15-16), which is available at the LegCo website at http://www.legco.gov.hk/yr15-16/english/panels/ws/ws_rp/reports/ws_rpcb2-1871-e.pdf.

The Subcommittee also recommended that the WS Panel should consider to follow up the above issues with the Administration in the Sixth LegCo.

Joint subcommittee to study the arrangement of offsetting severance payments and long service payments against accrued benefits of the Mandatory Provident Fund

13. In the Fifth LegCo, the Panel on Manpower and Panel on Financial Affairs appointed a joint subcommittee to study and review the arrangement of offsetting severance payments and long service payments against MPF accrued benefits and other related policy issues, and to make recommendations where necessary. The Joint Subcommittee commenced work on 20 January 2016 and reported to the two Panels in June 2016⁷ upon completion of its work. The Joint Subcommittee recommended that, among others, both Panels should consider to follow up the subject matter with the Administration in the Sixth LegCo.

Subcommittee on Retirement Protection under the House Committee in the Sixth LegCo

14. At the House Committee meeting on 28 October 2016, Members agreed that a subcommittee should be formed under the House Committee to study issues relating to the retirement life of all people, and to follow up on the proposal of setting up and implementation of universal retirement protection for all people in Hong Kong.

Council Business Division 2
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⁷ The deliberations of the Joint Subcommittee are detailed in its report (LC Paper No. CB(2)1684/15-16), which is available at the LegCo website at <http://www.legco.gov.hk/yr15-16/english/panels/mpf/reports/mpfcb2-1684-e.pdf>.