

**For discussion
on 29 January 2018**

Legislative Council Subcommittee on Retirement Protection

Comprehensive Protection for Elderly Persons under the Multi-pillar Retirement Protection System

Purpose

This paper briefs Members on the poverty situation of elderly persons, and the support provided by the Government to elderly persons with different needs under the multi-pillar retirement protection system.

Background

Poverty Situation of Elderly Persons

2. According to the poverty line¹ analysis in the Hong Kong Poverty Situation Report 2016, after recurrent cash intervention, the poor population of elderly persons aged 65 or above in 2016 was 337 000, with a poverty rate of 31.6%. However, it should be noted that while the poverty line provides a single and simple quantitative indicator, it only takes into account household income but not assets and liabilities. Therefore, some “asset-rich, income-poor” persons would be classified as poor statistically, leading to possible over-estimation of the actual poverty situation. It is believed that such over-estimation would be prevalent among retired elderly persons who have no employment income.

3. In order to further understand the poverty situation of elderly persons in Hong Kong, the Hong Kong Poverty Situation Reports feature a thematic analysis on the poverty situation of elderly persons, which further analyses the data acquired from the General Household Survey conducted by the Census and Statistics Department, as additional reference. Analysis in 2016 shows that about 300 000 out of the 337 000 poor elderly persons resided in non-Comprehensive Social Security Assistance (CSSA) households. Among them, about 210 000 (over 70%) persons were estimated to have no financial needs, in which about 130 000 (over 60%) of them resided in owner-occupied housing without mortgages. This reflects that some of these elderly persons who

¹ The poverty line is set at 50% of the median monthly household income before policy intervention (i.e. before taxation and welfare transfers).

were defined as poor may have considerable assets. On the other hand, about 42 000 (14.3%) poor elderly persons who resided in non-CSSA households were estimated to have financial needs, among which about 24 000 persons received Old Age Living Allowance (OALA).

Multi-pillar Retirement Protection System in Hong Kong

4. Regarding the retirement protection system, Hong Kong takes into account the multi-pillar model advocated by the World Bank and is adopting four pillars, including the multi-tier social security system (the zero pillar), the Mandatory Provident Fund (MPF) Scheme and other occupation-based retirement scheme (the second pillar), voluntary savings (the third pillar), as well as public services, family support and personal assets (the fourth pillar). It is worth noting that the multi-pillar model advocated by the World Bank does not require the presence of all five pillars. Instead, it stresses that a one-size-fits-all retirement protection system does not exist.

5. After a six-month public engagement exercise, the Government announced in early 2017 a series of measures to strengthen the retirement protection system. On the basis of maintaining the existing multi-pillar retirement protection system, the effectiveness of each pillar would be enhanced so that they could better complement one another. The relevant measures are elaborated in the ensuing paragraphs.

Measures to Strengthen the Retirement Protection System

Strengthening the Social Security Pillar

6. In order to strengthen the support of the social security pillar for elderly persons, the Government announced in January 2017 that the OALA would be enhanced through two measures. Following the relaxation of the asset limits of the existing allowance² (i.e. Normal OALA, the payment amount with effect from 1 February 2018 will be \$2,600 per person per month), the Government is preparing for the implementation of the Higher OALA in mid-2018 to provide eligible elderly persons³ with a higher monthly allowance of \$3,485 per person

² The asset limit for elderly singletons was raised (by around 50%) from \$225,000 to \$329,000, whereas that for elderly couples was raised from \$341,000 to \$499,000. The asset limits for elderly singletons and elderly couples will be upwardly adjusted to \$334,000 and \$506,000 respectively with effect from 1 February 2018 in accordance with the established mechanism.

³ Elderly singletons with assets not exceeding \$146,000 or elderly couples with assets not more than \$221,000, and meet the other eligibility criteria for Normal OALA. The relevant limits are the levels effective from 1 February 2018.

per month (payment level with effect from 1 February 2018), which is about one-third higher than the existing rate. The relevant allowance will take retrospective effect from 1 May 2017. According to rough estimates, around 400 000 elderly persons who are receiving Normal OALA will be eligible for Higher OALA, and will receive an additional one-off sum of over \$10,000 upon launching of Higher OALA.

7. According to the analysis of the Hong Kong Poverty Situation Report 2016, around 80% of the 337 000 poor population of elderly persons were recipients of various forms of social security. This reflects that our social security policy covers the majority of elderly persons who are defined as poor and is providing a certain level of financial assistance. Our strategy is to further assist needy elderly persons in a targeted manner. Indeed, targeted recurrent cash allowance policies are more effective than “universal” measures in terms of tackling the problem of elderly poverty. If a “universal” retirement protection scheme is adopted, more than 80% of the additional resources will be spent on relatively non-needy elderly persons, including elderly persons who are not receiving any cash allowance or receiving the non-means-tested Old Age Allowance.

Strengthening the MPF Pillar

8. On enhancing the MPF system, the abolition of the arrangement for “offsetting” severance payment and long service payment with MPF contributions is one of the priority tasks of the Government. Since July 2017, the current-term Government has been actively engaging the labour sector and the business sector. The Government has made clear its stance that the “offsetting” arrangement should be abolished and is willing to increase its financial commitment to mitigate the impact of the abolition on enterprises, in particular micro, small and medium enterprises. We hope to put forth a proposal that takes better account of the interests of the labour and business sectors, with a view to consulting both sectors and relevant stakeholders as soon as possible.

Strengthening the Voluntary Savings Pillar

9. In terms of making the voluntary savings pillar more assured, the Government launched the Silver Bond Pilot Scheme to provide an investment product with steady returns for elderly investors so as to assist them in investment management. The Government will review the effectiveness and arrangements of the Scheme upon its completion.

10. Separately, the Hong Kong Mortgage Corporation (HKMC) Limited has set up a wholly owned subsidiary (the HKMC Annuity Limited) and is seeking authorisation for long-term insurance business from the Insurance Authority, with a view to launching the Life Annuity Scheme in mid-2018. The Scheme will be provided in the form of an immediate, lifetime guaranteed, fixed-payout annuity, whereby eligible annuitants will receive monthly payouts for a lifetime immediately after making a lump-sum premium payment. The Scheme can help retirees mitigate the risks of outliving their savings and ensure the availability of a steady stream of future cashflows to facilitate better retirement planning.

Strengthening the Public Services Pillar

11. As regards improving the public services pillar, the Government has lowered the eligibility age for the Elderly Health Care Voucher from 70 to 65 with effect from 1 July 2017. More elderly persons are therefore receiving voucher value of \$2,000 a year to use private primary care services. In addition, since 15 July 2017, the medical fee waiver for public healthcare services has been enhanced to cover OALA recipients aged 75 or above with more financial needs. It is estimated that around 140 000 eligible elderly persons may benefit from the arrangement.

12. Moreover, the Elderly Commission completed and submitted to the Government an Elderly Services Programme Plan (ESPP) in June 2017 to strengthen the long-term planning of elderly services. The Government accepts in-principle the recommendations of the ESPP and has started taking follow-up actions. To benefit elderly persons in need as soon as possible, the Government has implemented some of the recommendations of the ESPP that can be launched at an earlier stage, e.g. launching two pilot schemes funded by the Community Care Fund to support elderly persons discharged from public hospitals after treatment and elderly persons with mild impairment. On the other hand, the Government has announced in the 2017-18 Budget the earmark of \$30 billion for strengthening elderly services and rehabilitation services for persons with disabilities. In the Chief Executive's 2017 Policy Address and Policy Agenda announced in October 2017, the Government has also proposed a series of initiatives relating to elderly services, such as providing additional resources for subsidised elderly service units to increase the salaries of personal care workers and home helpers, enhancing the service quality of residential care homes for the elderly (RCHEs) by providing subsidies for RCHEs to join accreditation schemes and for staff of RCHEs to enroll in training courses, earmarking

\$1 billion for setting up a fund to subsidise elderly service units to try and procure/rent technology products, and strengthening services for elderly persons with dementia, etc. Some of these measures will be funded by the abovementioned earmarked funding of \$30 billion.

Providing Comprehensive and Targeted Support for Elderly Persons

13. The Government will continue to take care of the different needs of elderly persons in the areas of social security, medical services, community care, financial management, etc., and implement various measures to strengthen the existing retirement protection system, with a view to providing more suitable and targeted protection for elderly persons after their retirement.

Advice Sought

14. Members are requested to note the content of this paper.

Labour and Welfare Bureau

Food and Health Bureau

Policy and Project Coordination Unit of the Chief Secretary for Administration's Private Office

Economic Analysis and Business Facilitation Unit of the Financial Secretary's Office

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