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Subcommittee on Retirement Protection

**Proposed continuation of work of the Subcommittee
in the 2017-2018 session**

Purpose

This paper seek members' views on the need for the Subcommittee on Retirement Protection ("the Subcommittee") to extend the period of its work and continue to operate in the 2017-2018 session.

Background

2. The Subcommittee was appointed by the House Committee on 28 October 2016 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. According to its terms of reference and work plan, the Subcommittee would focus its work on the following major issues:

- (a) review of the existing retirement protection model and its effectiveness, including the social security system and the Mandatory Provident Fund ("MPF") system;
- (b) the feasibility of setting up and implementation of universal retirement protection for all people in Hong Kong; and
- (c) way forward on the provision of retirement protection and those related to the livelihood in the light of an ageing population in Hong Kong.

Progress of work of the Subcommittee

3. The Subcommittee has since November 2016 held six meetings with the Administration and received views of deputations at three of

these meetings. The Subcommittee has studied the following major issues:

- (a) efficacy of the existing three-pillar model for retirement protection;
- (b) key features of and financial arrangements for the proposed models on retirement protection put forward by various community organizations and political parties;
- (c) the latest development of the public engagement exercise on retirement protection;
- (d) policy initiatives relating to retirement protection in the Chief Executive's 2017 Policy Address; and
- (e) Administration's proposal of progressive abolition of the "offsetting" arrangement under the MPF system.

Need for continuation of work in the 2017-2018 session

Major work ahead

Policy directions on retirement protection

4. In the 2017 Policy Address, the Administration stated that it had devised a package of measures to strengthen each of the existing retirement protection pillars with the following policy directions:

- (a) strengthening the social security pillar so that it could perform well the function of a safety net;
- (b) improving the public services pillar, in particular to help elderly persons meet their medical expenses;
- (c) enhancing the MPF pillar to maximize the protection for employees, including abolishing the "offsetting" arrangement progressively; and
- (d) making the voluntary savings pillar more assured.

5. The Subcommittee was briefed on the details of the above policy directions at its meeting on 7 February 2017. Members expressed various concerns. Some members welcomed the Administration's

proposed measures. These members considered that a non-means-tested retirement protection system would be financially unsustainable, and that the adoption of "those with financial needs" principle could direct public resources to help the elderly most in need.

6. Some other members, however, were of the view that the Administration could hardly address the public aspiration for enhancing retirement protection for elderly persons by merely strengthening each of the existing pillars. These members strongly urged the Administration to adopt the "regardless of rich and poor" principle to implement a non-means-tested universal retirement protection system with tripartite contributions from the Government, employers and employees so as to ensure that the elderly could lead a dignified and financially-secured life in their twilight years. In this connection, the Subcommittee held another meeting in April 2017 to receive views from academics and community organizations on the financial arrangements for various non-means-tested retirement protection proposals put forward by these community organizations. The Subcommittee will need to further examine the feasibility of implementation of a non-means-tested universal retirement protection system for Hong Kong.

Abolishing the "offsetting" arrangement progressively

7. On 23 June 2017, the Government announced that the proposal of progressively abolishing the "offsetting" arrangement should be affirmed and that the Government's original proposal with the following key features should be adopted as the basis for taking the matter forward:

- (a) "offsetting" would be abolished as from an Effective Date with no retrospective effect. In other words, accrued benefits from employers' mandatory MPF contributions before the Effective Date and the returns derived could be used to offset the severance payment ("SP")/long service payment ("LSP") payable for the employment period before the Effective Date;
- (b) the amount of SP or LSP payable for the employment period from the Effective Date would be adjusted downwards from the existing entitlement of two-thirds of the last month's wages to half of the last month's wages as compensation for each year of service; and
- (c) the Government would share part of the SP/LSP expenditure of employers in the 10 years from the Effective Date, and the estimated one-off expenditure would be \$7.9 billion.

8. The Subcommittee discussed and received views from depositions on the above Administration's proposals at its meeting on 24 June 2017. Members expressed diverse views on the proposals. Some members pointed out that the business sector, especially the small and medium enterprises ("SMEs"), opposed to the Administration's proposal to progressively abolish the "offsetting" of SP or LSP with MPF contributions, having regard to the fact that the "offsetting" arrangement was a consensus reached after extensive consultation in enacting the MPF legislation. Moreover, employers would have to set aside dedicated fund for SP or LSP after the abolition of the "offsetting" arrangement. This would give a severe blow to the operation of SMEs and would result in immediate dismissal of employees for subsequent re-employment under new contracts. While noting that the Administration proposed to provide 10 years' government subsidy for employers on a reimbursement basis in order to share part of the expenses on SP or LSP, some members considered that the Government should set up a fund to help employers meet the long-term commitment for extra expenses on SP and LSP.

9. Some other members expressed concern that under the Administration's proposals, employers would only retain employees with less than five years' service so as to evade the statutory obligations to pay LSP to the employees concerned. These members strongly opposed to the proposal to revise the formula for calculation of SP and LSP entitlement for dismissed employees from two-thirds of last month's wages to half of the last month's wages as compensation for each year of service.

10. Members generally considered that the next-term Government should take heed of the strong dissenting views of both the business and labour sectors and revisit the proposals. The Subcommittee will need to follow up the matter with the next-term Government which will assume office on 1 July 2017.

Proposed extension of period of work

11. Rule 26(c) of the House Rules provides that a subcommittee should complete its work within 12 months of its commencement and report to the House Committee. If it is necessary for a subcommittee to work beyond 12 months, the subcommittee should report to the House Committee and give justifications for an extension of the 12-month period.

12. The work of the Subcommittee ties in with the progress of the Administration's work on taking forward the retirement protection

scheme. Having regard to the major issues which need to be deliberated or followed up by the Subcommittee as set out in paragraphs 6 and 10 above, members may wish to consider the need for the Subcommittee to continue its work in the 2017-2018 session, i.e. until 30 September 2018.

Advice sought

13. At the meeting of the Subcommittee on 24 June 2017, members agreed in principle to seek an extension of its 12-month work period. Subject to the members' further views, if any, a report will be made to the House Committee for seeking its approval of the proposal to extend the period of its work and continue to operate in the 2017-2018 session (i.e. until 30 September 2018).

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