OFFICIAL REPORT OF PROCEEDINGS

Wednesday, 13 May 1987

The Council met at half-past Two o'clock

PRESENT

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)
SIR DAVID CLIVE WILSON, K.C.M.G.
THE HONOURABLE THE CHIEF SECRETARY
MR. DAVID ROBERT FORD, L.V.O., O.B.E., J.P.
THE HONOURABLE THE FINANCIAL SECRETARY (*Acting*)
MR. JOHN FRANCIS YAXLEY, J.P.
THE HONOURABLE THE ATTORNEY GENERAL
MR. MICHAEL DAVID THOMAS, C.M.G., Q.C.
THE HONOURABLE LYDIA DUNN, C.B.E., J.P.
THE HONOURABLE CHEN SHOU-LUM, C.B.E., J.P.
THE HONOURABLE PETER C. WONG, C.B.E., J.P.
DR. THE HONOURABLE HO KAM-FAI, O.B.E., J.P.
THE HONOURABLE ALLEN LEE PENG-FEI, O.B.E., J.P.
THE HONOURABLE WONG PO-YAN, O.B.E., J.P.
THE HONOURABLE DONALD LIAO POON-HUAI, C.B.E., J.P.
SECRETARY FOR DISTRICT ADMINISTRATION
THE HONOURABLE CHAN KAM-CHUEN, O.B.E., J.P.
THE HONOURABLE JOHN JOSEPH SWAINE, O.B.E., Q.C., J.P.
THE HONOURABLE STEPHEN CHEONG KAM-CHUEN, O.B.E., J.P.
THE HONOURABLE CHEUNG YAN-LUNG, O.B.E., J.P.
THE HONOURABLE MRS. SELINA CHOW LIANG SHUK-YEE, O.B.E., J.P.
THE HONOURABLE MARIA TAM WAI-CHU, O.B.E., J.P.
DR. THE HONOURABLE HENRIETTA IP MAN-HING, O.B.E., J.P.
THE HONOURABLE MRS. RITA FAN HSU LAI-TAI, J.P.
THE HONOURABLE MRS. PAULINE NG CHOW MAY-LIN, J.P.
THE HONOURABLE PETER POON WING-CHEUNG, M.B.E., J.P.
THE HONOURABLE YEUNG PO-KWAN, C.P.M., J.P.
THE HONOURABLE KIM CHAM YAU-SUM, J.P.
THE HONOURABLE JOHN WALTER CHAMBERS, O.B.E., J.P.
SECRETARY FOR HEALTH AND WELFARE
THE HONOURABLE JACKIE CHAN CHAI-KEUNG
THE HONOURABLE CHENG HON-KWAN
THE HONOURABLE HILTON CHEONG-LEEN, C.B.E., J.P.
DR. THE HONOURABLE CHIU HIN-KWONG
THE HONOURABLE CHUNG PUI-LAM

THE HONOURABLE THOMAS CLYDESDALE
THE HONOURABLE HO SAI-CHU, M.B.E., J.P.
THE HONOURABLE HUI YIN-FAT
DR. THE HONOURABLE CONRAD LAM KUI-SHING
THE HONOURABLE MARTIN LEE CHU-MING, Q.C., J.P.
THE HONOURABLE LEE YU-TAI
THE HONOURABLE DAVID LI KWOK-PO, J.P.
THE HONOURABLE LIU LIT-FOR, J.P.
THE HONOURABLE NGAI SHIU-KIT, O.B.E., J.P.
THE HONOURABLE PANG CHUN-HOI, M.B.E.
THE HONOURABLE POON CHI-FAI
THE HONOURABLE HELMUT SOHMEN
THE HONOURABLE SZETO WAH
THE HONOURABLE TAI CHIN-WAH
THE HONOURABLE MRS. ROSANNA TAM WONG YICK-MING
THE HONOURABLE TAM YIU-CHUNG
DR. THE HONOURABLE DANIEL TSE, O.B.E., J.P.
THE HONOURABLE ANDREW WONG WANG-FAT
THE HONOURABLE LAU WONG-FAT, M.B.E., J.P.
THE HONOURABLE GRAHAM BARNES, J.P.
SECRETARY FOR LANDS AND WORKS
THE HONOURABLE RONALD GEORGE BLACKER BRIDGE, O.B.E., J.P.
SECRETARY FOR EDUCATION AND MANPOWER
THE HONOURABLE DAVID GREGORY JEAFFRESON, C.B.E., J.P.
SECRETARY FOR SECURITY
THE HONOURABLE MICHAEL LEUNG MAN-KIN, J.P.
SECRETARY FOR TRANSPORT
THE HONOURABLE NATHANIEL WILLIAM HAMISH MACLEOD, J.P.
SECRETARY FOR TRADE AND INDUSTRY

ABSENT

THE HONOURABLE HU FA-KUANG, O.B.E., J.P.
THE HONOURABLE CHAN YING-LUN, J.P.
THE HONOURABLE RICHARD LAI SUNG-LUNG
PROF. THE HONOURABLE POON CHUNG-KWONG

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
MR. LAW KAM-SANG

Papers

The following papers were laid pursuant to Standing Order 14(2):

Subject	*L.N. No.*
Subsidiary Legislation:	
Fire Services Ordinance Fire Services Department (Reports and Certificates) (Amendment) Regulations 1987	127/87
Customs and Excise Service Ordinance Customs and Excise Service (Amendment of Second Schedule) Order 1987	132/87
Immigration Ordinance Immigration (Vietnamese Refugee Centres) (Designation) (Consolidation) (Amendment) Order 1987	133/87
Immigration Ordinance Immigration (Vietnamese Refugee Centres) (Open Centre) (Amendment) Rules 1987	134/87

Sessional Papers 1986-87:

No. 58—Supplementary provisions approved by the Urban Council during the fourth quarter of the Financial Year 1986-87

No. 59—Government Minute in response to the Report of the Public Accounts Committee dated January 1987

Oral answers to questions

The general level of confidence in Hong Kong

1. MR. LEE YU-TAI asked: *Sir, does the Government have any means to assess the general level of confidence within the Territory since the announcement of the Sino-British Joint Declaration and, if so, how has this been done and what are the findings?*

CHIEF SECRETARY: Sir, I noticed the other day that my friend, the hon. Allen LEE, when commenting on the question of stability of Hong Kong, made the point that it was subject to seasonal fluctuations. I would go further, Sir, and say from a personal point of view, it seems to be effective on a monthly, weekly or even daily basis. Indeed on Wednesday afternoons, my confidence sometimes reaches an 'all-time' low [*laughter*], particularly when I have to answer two of the three questions which have been put by hon. Members. But lest I have been accused of 'frivolous' in answer to a serious question, my point does have some significance.

Any view on the general level of confidence in Hong Kong must be largely subjective. To try to justify a definitive view solely on the basis of statistics or indicators is obviously open to criticism, and it is for this reason that the Government relies on its network of contacts at all levels of the community to stay in touch with the mood of the people, in addition to taking into account social and economic indicators and opinion polls carried out by independent research companies.

Sir, economic indicators show an encouraging trend. In 1986, investment in plant and machinery increased 8 per cent in real terms compared with the previous year. More specifically, retained imports of industrial machinery, which is an important indicator of investment in the manufacturing sector, increased by 26 per cent in real terms.

The property market in Hong Kong has been volatile in the past but has settled down more recently and is, now I believe, a fair indicator of the confidence level in the community. There is a growing number of people wanting to buy their own homes and in 1986, the 13 000 home ownership flats put on the market by the Government were over-subscribed by no less than 18 times. In addition, the value of agreements for sale and the purchase of property increased by 32 per cent last year.

Large sums of money are being spent on long-term infrastructural projects, and private venture capital involved in the second cross harbour tunnel, in container terminals and in property development also indicate a high level of confidence.

The Worldwide Gallup poll, taken at the end of 1986, which surveys people's views about their future in 31 countries found that the people of Hong Kong were the most confident about their prospects for 1987. The latest SRH survey, which has been quoted as evidence of a declining level of confidence, showed that 73 per cent of the population were confident about their future. How many countries in the world, Sir, I wonder, could make similar claims?

But no answer to Mr. LEE's question would be complete without a reference to emigration statistics. Hong Kong has a tradition of emigration dating back over 30 years. Freedom of movement and travel are fundamental rights of the Hong Kong people. The Secretary for Security informed this Council in January this year that there are no comprehensive statistics giving the number and details of those who emigrate. The only statistics that give an indication are the numbers of persons leaving Hong Kong each year on Hong Kong travel documents and the numbers returning. The net outward movement of Hong Kong residents, excluding those to and from China, averaged 20 000 between 1980 and 1984. In 1985, the figure dropped to 11 500 and in 1986, it was just under 14 000. One reason for the drop is that many Hong Kong Chinese people who emigrated and who have obtained citizenship or permanent residence in other countries are now returning because of better job prospects and other attractions here. People coming back from the United Kingdom, Canada and the States, armed with degrees and work experience, are helping to promote Hong Kong as an international city. Last year, for example, over 8 000 ex-Hong Kong residents returned on foreign passports and were granted the right to land. This is an encouraging trend.

But, Sir, nothing I have said is intended to conceal the fact that of course some people do feel uncertain about the future of Hong Kong. The fact is that uncertainty exists in any society. But when one looks around at the long-term intractable problems facing a large number of other countries, Hong Kong has every reason to face its future with a good deal more confidence than many other places. Of course the community is concerned about the system of government they will have up to and beyond 1997. But that is why there is so much healthy discussion about this topic.

If we take time to consider our thriving economy, our reducing crime rate, our hardworking and stable workforce and the strength of our community which has none of the racial, religious or factional problems which beset so many other places at this time, I believe that we could agree that Hong Kong has much to be thankful for and much to look forward to.

In conclusion, Sir, may I add that I believe it would be a refreshing change if the views of the majority of Hong Kong people who do have real confidence in the future and who are determined to stay here and make it work were to be given more prominence than has been the case in recent months.

MR. LEE YU-TAI: *Sir, may I refer to page 3 of the Chief Secretary's answer and ask for emigration figures since the beginning of 1987 and in the event of an increase, is there any connection with recent happenings in China?*

CHIEF SECRETARY: Sir, I do not have the figures for the first months of this year. I will try to make them available to Mr. LEE. (See Annex I) But I would make the point that emigration patterns in Hong Kong are very much dependent on the quotas which are made available in the countries which people wish to go and I note from this morning's papers that two of those countries, Australia and Canada, are actively seeking Hong Kong people to go and settle in their countries and it is not surprising against the background that I have described of people wanting to move and to try their luck in other countries that these quotas should be full. I do not believe that we should read into these figures any particular political significance.

DR. LAM (in Cantonese): *Sir, the Hong Kong dollar is now linked to the American dollar. Does it to a certain extent reflect the lack of confidence of the Hong Kong people in the future of Hong Kong? If that is not the case, and as is stated* *in paragraph 2 of the Chief Secretary's answer that Hong Kong has a bright future, why is it that we still retain the linked exchange rate?*

FINANCIAL SECRETARY: Sir, I think that Members are aware of the circumstances surrounding the introduction of the linked system some years ago. This system, I think, has served us well. It is no reflection on confidence at this time. Indeed, I believe it has helped us in the last two or three years since it has been in effect in respect of our economy.

MR. MARTIN LEE: *Sir, does the Administration believe that the confidence of the people of Hong Kong in their future is to a large extent linked to their confidence in the leaders of the Peoples' Republic of China being able to maintain an open policy in China? And if so, how has the recent change of attitude of the Chinese Communist Party towards 'bourgeois liberalism' affected the confidence of the people of Hong Kong in their future?*

CHIEF SECRETARY: Sir, the Chinese leaders in recent statements in China and representatives in Hong Kong have made it clear that the policy change in China will have no effect upon Hong Kong or its future. That is an oft repeated statement. I believe we should obviously take it as a statement of the policy of the Chinese Government and therefore what is happening in China should have no effect on the future confidence of Hong Kong people.

Review of section 27 of the Public Order Ordinance

2. MR. CHEONG-LEEN asked: *Will Government inform this Council whether in view of public anxiety about the recently passed section 27 of the amended Public Order Ordinance, consideration will be given to reviewing its provisions at an early and appropriate time?*

CHIEF SECRETARY: Sir, the Government is, of course, aware of the anxiety generated in some quarters and particularly in the media by the retention of section 27 of the Public Order Ordinance. I must add, however, that I believe that much of this is based on a misunderstanding of the purpose of the law and its practical effects.

To help publishers understand their position under the law and to demonstrate how this provision will be applied in practice, the Attorney General has recently published the guidelines which his chambers will follow when advising him on whether to prosecute under this section. This step will, I am sure, go a long to remove concern that the provision places unwarranted constraints on the freedom of the press.

The principle behind the clause is that the community is entitled to protection under the law against irresponsible scaremongering caused by the publication of false news. Sir, the compactness of this Territory, the very large number of newspapers and the tradition they have of picking up items for other newspapers means that rumours travel very extremely quickly. There have been many examples of reactions becoming quite out of proportion to the significance of the news. Hong Kong is particularly sensitive to the spread of false news in a way that does not apply to other less densely populated communities.

It was this factor which was uppermost in the minds of the Members of the Executive Council when they advised that this provision should be included in the law and was, I believe, the reason why this Council also endorsed its retention.

The false news provision should not inhibit journalists from publishing news which they believe to be true. The provision is surely consistent with professional standards which the responsible media have always set themselves. Indeed, I have not noticed that either before, or since, the passing of this law, the media have appeared to be in any way inhibited by it. As I have said on previous occasions, this law is not intended to undermine the rights of the free press in Hong Kong in any way.

In my speech in the Legislative Council when I introduced the Bill, I made the point that this clause would only be used as a measure of last resort and, as the Attorney General's guidelines have made clear, in a very limited set of circumstances.

Against this background, Sir, the Government does not yet see a case for a review of section 27 of the Public Order Ordinance.

But of course Ordinances can be reviewed at any time, if there is a genuine need to do so and such a need is identified. We believe in this case, it is better to see how the new measure works in practice. If at a later stage the Legislative Council wishes to review the clause, it can of course do so.

MR. CHEONG-LEEN: *Sir, has the Chief Secretary seen the letter under the caption 'time to clarify section 27' which appeared in today's issue of the 'South China Morning Post' under the name of Mr. Denis CHANG, Q.C., who happens to be the Chairman of the Hong Kong Bar Association? And would the Chief Secretary be prepared to let me have a reply in writing of the Government's views on each of the points raised in that letter?*

ATTORNEY GENERAL: Sir, I am sure that the Chief Secretary will be willing to say 'yes' to that question, but that letter has already been studied. The suggestions made by Mr. CHANG could be said to be unnecessary because with one exception, the proposals he makes for clarification are on matters which are already implicit in the section applying the usual rules of statutory interpretation. One exception is on the point as to how far the general or widespread public alarm is likely to be in order to fall within the section, and on that point, a view is taken that Mr. CHANG's suggestion is not consistent either with the section or with the guidelines that I have issued. Sir, whilst all suggestions that come from the Chairman of the Bar Association naturally are given the greatest consideration, so far it does not appear to be necessary or appropriate to amend the section along these lines.

MR. MARTIN LEE: *Sir, is the recent and quite unprecedented publication by the Attorney General of his guidelines referred to by the Chief Secretary not the clearest possible admission that the section is bad law and that being the case, is it not much more sensible that the relevant section be scrapped altogether, or alternatively, should not the contents of his guidelines be enacted as an amendment to the relevant section so that they will have the force of law and will not have to depend on the whims of the holder of the office of the Attorney General from time to time?*

ATTORNEY GENERAL: Yes, Sir, I think that because it is useful to indicate guidelines as to how a particular law will be applied does not mean that the law itself is bad. On the contrary, in most laws there is often need to revert to case law and establish practice to see how it could fairly be interpreted by the courts. The guidelines do no more than supply that kind of guidance to this particular section. As to whether or not the guidelines themselves should be given legislative effect, that I think again is unnecessary. The guidelines are there as a fair interpretation of the public interest and the meaning of the section, and the fact that they are appearing over the signature of the Attorney General who is in any event limited by the section itself shows, I think, appropriately how the common law can fairly be administered from time to time.

MR. CHEONG: *Sir, could the Chief Secretary please elaborate the penultimate sentence which says that he believes in this case it is better to see how the new measure works in practice? Does he mean that the review would not be undertaken by the Government until and unless there is a case being brought to court to see how the Ordinance works?*

CHIEF SECRETARY: Sir, I think my statement was fairly clear and was in fact a repetition of what I said when I introduced the Bill originally into this Council some months ago. I might remind Members what I said on that occasion, 'Finally, I assure Members in response to the requests of several of them that the Government will carefully monitor the situation and will review this provision in the light of experience. I do not believe that necessarily involves seeing whether the law has to be invoked for any particular reason or indeed any particular time-scale'. I think it simply means what it says.

MR. LEE YU-TAI: *Sir, may I refer to the third last paragraph of the Chief Secretary's answer which says that section 27 of the Public Order Ordinance is a last resort, and ask why is it required because an almost identical section already exists in the Emergency Regulations Ordinance, and in this way, a last resort has been provided?*

CHIEF SECRETARY: Sir, with respect to Mr. LEE we have covered this ground in great length in the debate on the original section and I do not believe it will be appropriate to open it again at this stage.

MR. MARTIN LEE: *Sir, in relation to the Attorney General's answer to my question, does the Attorney General not appreciate that case law is part of the laws of Hong Kong and is therefore binding on the court, whereas guidelines have no legal effect at all, and therefore should not be relied upon to add to a law which is at best ambiguous?*

ATTORNEY GENERAL: Mr. Martin LEE has misunderstood my point. It is simply that when a new section appears, there is by definition no case law on that section. One does not need guidelines to administer the law of rape or murder when the books are full of illustrations of how the law is to be applied. So in the absence of that case law, such guidelines as we have produced, I think, are very helpful indication to those in my chambers as to how we should advise in future if a prosecution arises.

Injuries resulted from the practice of 'qigong'

3. MR. LIU asked (in Cantonese): *As more and more organisations and individuals are running 'qigong' (a system of deep breathing exercises) classes recently, will Government inform this Council:*

(i) the number of reported injuries linked to the practising of 'qigong' exercises; and

(ii) whether any victim has required subsequent treatment as a result of these injuries?

SECRETARY FOR HEALTH AND WELFARE: Sir, the Medical and Health Department's statistics are not, I am afraid, kept in a form which enables us to identify the number of injuries linked to the practice of 'qigong' exercises. It follows that we cannot say for certain whether anyone has received treatment as a result of such injuries.

I understand, however, from the department that there is no indication that any significant number of injuries have resulted from the practice of 'qigong' exercises.

MR. LIU (in Cantonese): *Sir, do organisations that run 'qigong' classes have to register with the Government and does the Government monitor these activities? Will the Government consider asking the Recreational and Sports Services, for example, to run some classes so that these classes are properly conducted?*

SECRETARY FOR HEALTH AND WELFARE: Sir, there is no requirement to register such classes at present but I will pass on Mr. LIU's suggestion to the Secretary for Municipal Services.

Written answers to questions

Funds for recreational and cultural activities

4. MR. HUI asked: *Will the Government inform this Council of its policy on the allocation of funds to government departments, community groups and voluntary agencies for organising cultural and recreational activities and whether the Government is aware that disparities in the level of subsidies granted have led to voluntary agencies having to charge higher entrance fees for the same kind of cultural and recreational programmes offered by government departments and community groups?*

SECRETARY FOR DISTRICT ADMINISTRATION: Sir, like all other services, funds for cultural and recreational programmes implemented or supported by government departments are allocated in accordance with the basic principles of needs and priorities through the annual budgetary exercise.

Government support for cultural and recreational activities organised by voluntary welfare agencies is provided in the form of annual subvention. For projects proposed by other community groups, funds are approved on individual case merits.

The Government is aware of cases where subvented agencies charge higher fees for similar kinds of programmes offered by government departments or community groups. But there are also cases where fees charged by these agencies are less than that of the others. Government subsidies are just one factor in determining the level of fees charged. The availability of other sources of finance, the objectives and popularity of the programmes organised, and the ability of the target clientele to pay for participating in the programmes, also affect the level of fees charged.

Given the great variety of cultural and recreational programmes carried out by a large number of organisations for different purposes, it is inevitable that the allocation of funds and the level of fees charged cannot be the same in all cases. Indeed, it is essential to maintain a degree of flexibility to allow organisers certain discretion in designing their programmes.

Policy regarding density zoning

5. DR. IP asked: *Will Government inform this Council what is its policy, and the rationale governing it, regarding site coverage for the different classes of sites in Density Zone I and II areas?*

SECRETARY FOR LANDS AND WORKS: Sir, in Hong Kong density is controlled by the Buildings Ordinance, by statutory plans and by lease conditions. The Building (Planning) Regulations stipulate the maximum density which may be allowed if there are no other general density constraints imposed in the area by statutory plans or by lease conditions. These densities which are shown in the Schedule to the regulations are usually known as full zone I densities. In certain areas, however, Government has decided that only lower densities should be permitted and is guided by separate density zoning schedules in fixing the upper limit for modifications and new leases. Density Zone II which applies to certain areas of the mid-levels and zones designated for medium density housing in other districts is an example. Density Zone III is for areas where even less dense development is permitted. In some cases the constraint is enforced by statutory plans; in others it is maintained administratively.

As stated above, the control tables for Density Zone I are specified in the Schedule of the Building (Planning) Regulations. Copies of density zone tables for zones 2 and 3 and density zones specific to the new towns are annexed to this reply. But density control is not limited to the constraints in these tables, as density may also be further constrained by other regulations or by more specific restrictions contained in individual leases.

The density zoning tables at Appendices I, II and III, also make reference to other factors in specifying the permitted site coverages of individual sites. These are the heights of the building proposed, and in the case of the Density Zone I tables, intended use (domestic or non-domestic). In the case of Density Zones I and II, the number of streets onto which it faces also determines the site classification.

Although additional factors apply to non-domestic buildings, the general principle behind density zoning of individual is that the more you reduce site coverage, the higher you can build and the greater usable floor area you can achieve. The aim of the classification of sites as A and B and C is to reduce the bulk of the building where its surroundings does not allow entry of sufficient light and air, for example, in a class A site, which fronts onto one street, the permitted coverage will be less than for a class B site, which fronts onto two streets.

Appendix I

TABLE ONE

**Domestic Building Density Controls—Zone II Areas—
Hong Kong Island, Kowloon and New Kowloon**

Height—No. of storeys used for domestic purposes	Percentage site coverage			Plot ratio		
	Class of site			Class of site		
	A	B	C	A	B	C
3	55	66.5	72.5	1.65	2.00	2.18
4	45	54	60	1.80	2.16	2.40
5	40	48	53	2.00	2.40	2.65
6	35	42	46	2.00	2.52	2.76
7	30	36	39.5	2.10	2.52	2.77
8	30	36	39.5	2.40	2.88	3.16
9	30	36	39.5	2.70	3.24	3.56
10	27.5	33	36	2.75	3.30	3.60
11	27.5	33	36	3.03	3.63	3.96
12	27.5	33	36	3.30	3.96	4.32
13	25	30	33	3.25	3.90	4.29
14	25	30	33	3.50	4.20	4.62
15	25	30	33	3.75	4.50	4.95
16	25	30	33	4.00	4.80	5.28
17	25	30	33	4.25	5.10	5.61
18	25	30	33	4.50	5.40	5.94
19	25	30	33	4.75	5.70	6.27
20	25	30	33	5.00	6.00	6.60
More than 20	Any development above 20 storeys shall not have a permitted plot ratio in excess of that permitted for 20 storeys.					

Appendix II

TABLE TWO

Domestic Building Density Controls—Zone III Areas—
Hong Kong Island, Kowloon and New Kowloon

Height—No. of storeys used for domestic purposes	Percentage site coverage—all sites	Plot ratio —all sites
2	30	0.60
3	25	0.75
4	22.5	0.90
5	20	1.00
6	20	1.20
7	20	1.40
8	17.5	1.40
9	17.5	1.58
10	17.5	1.75
11	17.5	1.93
12	17.5	2.10
13	15	1.95
14	15	2.10
15	15	2.25
16	15	2.40
17	15	2.55
18	15	2.70
19	15	2.85
20	15	3.00
More than 20	Any development above 20 storeys shall not have a permitted plot ratio in excess of that permitted for 20 storeys.	

Appendix III

TABLE THREE

Recommended Permitted Plot Ratios and
Site Coverage on Residential Sites in New Town Areas

Building height No. of storeys—assuming 3m/storey)	*Zone I*		*Zone II*		*Zone III*	
	Maximum site coverage	*Domestic plot ratio*	*Maximum site coverage*	*Domestic plot ratio*	*Maximum site coverage*	*Domestic plot atio*
3	NA	NA	55.0	1.65	25.0	0.75
4	NA	NA	45.0	1.80	22.5	0.90
5	NA	NA	40.0	2.00	20.0	1.00
6	60.0	3.6	35.0	2.10	20.0	1.20
7	55.7	3.9	30.0	2.10	20.0	1.40
8	52.5	4.2	30.0	2.40	18.7	1.50
9	48.9	4.4	30.0	2.70	17.5	1.58
10	46.0	4.6	27.5	2.75	17.5	1.75
11	45.5	5.0	27.5	3.03	17.5	1.93
(Standards applicable prior to September 1981)			(Planning area having no comprehensive approved layouts)			
12	44.2	5.3	27.5	3.30	17.5	2.10
13	43.1	5.6	25.8	3.35	16.5	2.15
14	42.1	5.9	25.0	3.50	15.7	2.20
15	42.0	6.3	25.0	3.75	15.0	2.25
16	41.3	6.6	25.0	4.00	15.0	2.40
17	40.6	6.9	25.0	4.25	15.0	2.55
18	40.0	7.2	25.0	4.50	15.0	2.70
19	39.5	7.5	25.0	4.75	15.0	2.85
20	39.0	7.8	25.0	5.0	15.0	3.00
Over 20	33.33	8.0	25.0	5.0	15.0	3.00
			(Planning area with comprehensive approved layouts)			

Measures to control environmental pollution around controlled tips

6. MR. POON CHI-FAI asked: *Some controlled tips are located in the urban area (for example, the Ngau Tau Kok controlled tip in Kwun Tong) and the odour which they emit affects the living environment as well as the health of nearby residents. With the approach of the summer season, can Government inform this Council whether there are any remedial measures to prevent the above situation from deteriorating?*

SECRETARY FOR HEALTH AND WELFARE: Sir, Jordan Valley landfill started operation last year and is expected to operate until 1989. It is likely to be the last landfill in the urban area and will be replaced by a refuse transfer station at Kowloon Bay. Waste will be transported from this station in purpose-built container trucks to landfill sites in the New Territories. The trucks and transfer station will be designed to contain odours and prevent environmental nuisance to surrounding areas.

Though the Jordan Valley landfill will operate for three years only, it has been designed to the same standards as the larger landfills, and special attention has been given to the need to prevent nuisance (including smell) which may affect nearby residents. Every effort is made to ensure that refuse is compacted and covered immediately after delivery, and the access road and hardstanding areas are cleaned frequently by street-cleaning vehicles. Measures are taken to control insects and vermin by ensuring that waste is covered, use of a small working face, efficient compaction, the elimination of standing water and the use of pesticides.

The Jordan Valley landfill mainly receives household refuse delivered by Urban Services Department vehicles. In the rainy season, waste is often very wet and the compaction effect of the collection vehicle can squeeze considerable quantities of liquid from the waste. Many collection vehicles delivering waste to Jordan Valley landfill do not contain all of this liquid with the result that polluted liquid splashes onto the roads both within the site and on nearby public roads. During a site inspection on 7 May 1987, polluted liquids were observed outside the landfill on Shun Lee Tsuen Road close to the Shun Lee, Shun On and Shun Tin estates. These liquids appear to be the major cause of bad smells in the vicinity of the Jordan Valley landfill. Urban Services Department has agreed to check the design of existing refuse collection vehicles to see whether improvements can be made and to note this problem when placing orders for new vehicles.

The Environmental Protection Department has kept the district board and its committees fully informed of the development of the landfill and the measures taken to control environmental pollution and nuisance. Members of the district board, Shun Lee Area Committee and East Ngau Tau Kok Area Committee visited the landfill on 24 October 1986 and were generally satisfied with the situation, but requested that a further visit be arranged during the summer months. In the meantime EPD will continue to monitor operations and recommend improvements where needed. Recent improvements include the hydroseeding of embankments and the planting of trees to improve the visual appearance of the site.

Judicial appointments

7. MR. TAI asked: *Sir, will Government inform this Council whether it proposes to allow serving officers from the Attorney General's Chambers to be considered for appointment as temporary magistrates and district judges, such officers then resuming their duties in Attorney General's Chambers; and, if so, whether Government has considered the implications of this arrangement as regards the fundamental principle that the Judiciary should be, and be seen to be, independent from the executive?*

ATTORNEY GENERAL: In the past, professional members of the Attorney General's Chambers have provided a valuable source of talent to the Judiciary, and I am sure that it will be in the interests of the administration of justice in Hong Kong for that to continue.

The policy governing judicial appointments is a matter for the Chief Justice and I understand that he will shortly be consulting the Judicial Service Commission on how to assess the judicial abilities of members of my chambers who appear to be well qualified to sit on the Bench. Until that consultation has yielded a satisfactory solution to the question, no appointments of the kind described in Mr. TAI Chin-wah's question will be made. I shall ensure that the terms of Mr. TAI Chin-wah's question are brought to the attention of the Chief Justice.

Government Business

Motions

PENSIONS (INCREASE) ORDINANCE

THE CHIEF SECRETARY moved the following motion: That the Second Schedule to the Pensions (Increase) Ordinance be amended with effect from 1 April 1987—

(*a*) in Part I by adding the following—

'20. The adjusted pension under paragraph 19 may be further increased by 3 per cent.';

(*b*) in Part II by adding the following—

‘19. The adjusted pension under paragraph 18 may be further increased by 3 per cent.’;

(*c*) in Part III by adding the following—

‘19. The adjusted pension under paragraph 18 may be further increased by 3 per cent.’;

(*d*) in Part IV by adding the following—

‘18. The adjusted pension under paragraph 17 may be further increased by 3 per cent.’;

(*e*) in Part V by adding the following—

‘17. The adjusted pension under paragraph 16 may be further increased by 3 per cent.’;

(*f*) in Part VI by adding the following—

‘16. The adjusted pension under paragraph 15 may be further increased by 3 per cent.’;

(*g*) in Part VII by adding the following—

‘15. The adjusted pension under paragraph 14 may be further increased by 3 per cent.’;

(*h*) in Part VIII by adding the following—

‘14. The adjusted pension under paragraph 13 may be further increased by 3 per cent.’;

(*i*) in Part IX by adding the following—

‘12. The adjusted pension under paragraph 11 may be further increased by 3 per cent.’;

(*j*) in Part X by adding the following—

‘11. The adjusted pension under paragraph 10 may be further increased by 3 per cent.’;

(*k*) in Part XI by adding the following—

‘10. The adjusted pension under paragraph 9 may be further increased by 3 per cent.’;

(*l*) in Part XII by adding the following—

‘9. The adjusted pension under paragraph 8 may be further increased by 3 per cent.’;

(*m*) in Part XIII by adding the following—

‘8. The adjusted pension under paragraph 7 may be further increased by 3 per cent.’;

(*n*) in Part XIV by adding the following—

‘7. The adjusted pension under paragraph 6 may be further increased by 3 per cent.’;

(*o*) in Part XV by adding the following—
 '6. The adjusted pension under paragraph 5 may be further increased by 3 per cent.';

(*p*) in Part XVI by adding the following—
 '5. The adjusted pension under paragraph 4 may be further increased by 3 per cent.';

(*q*) in Part XVII by adding the following—
 '4. The adjusted pension under paragraph 3 may be further increased by 3 per cent.';

(*r*) in Part XVIII by adding the following—
 '3. The adjusted pension under paragraph 2 may be further increased by 3 per cent.';

(*s*) in Part XIX by adding the following—
 '2. The adjusted pension under paragraph 1 may be further increased by 3 per cent.'; and

(*t*) by adding the following—

'PART XX

Applicable to a basic pension based on a salary in force from 1 April 1986 to 31 March 1987 inclusive

1. The basic pension may be increased by 3 per cent.'.

He said: Sir, I move the first motion standing in my name on the Order Paper.

The Government's declared policy is to maintain the original purchasing power of civil service pensions, including pensions payable under the Widows and Orphans Pension Scheme and under the Widows' and Children's Pensions Scheme. This is achieved by periodic pension adjustments in line with movements in the Consumer Price Index (A).

During the latest review period from 1 April 1986 to 31 March 1987, the moving annual average of the Consumer Price Index (A) rose by 5.2 points or 3.23 per cent. In line with established practice, it is proposed that a pension increase of 3 per cent should be awarded with effect from 1 April 1987.

The total cost of increasing all pensions by 3 per cent is estimated at $24.4 million for a full year. This is a statutory charge which may be authorised by resolution of this Council under the appropriate Ordinances.

Sir, I beg to move.

(Mr. CHENG Hon-kwan declared an interest in writing and abstained from voting on the motion.)

Question put and agreed to.

WIDOWS AND ORPHANS PENSION (INCREASE) ORDINANCE

THE CHIEF SECRETARY moved the following motion: That the Schedule to the Widows and Orphans Pension (Increase) Ordinance be amended by adding the following—

'42. The Pension calculated on the total contributions up to 31 March 1986 inclusive plus the total increases in pension up to 31 March 1987 may be increased by 3 per cent with effect from 1 April 1987.

43. The pension calculated on contributions from 1 April 1986 to 31 March 1987 inclusive may be increased by 3 per cent with effect from 1 April 1987.'

He said: Sir, my explanation on the first motion standing in my name on the Order Paper equally applies to the subject of the second motion standing in my name. I therefore beg to move.

(Mr. CHENG Hon-kwan declared an interest in writing and abstained from voting on the motion.)

Question put and agreed to.

First Reading of Bill

CHINESE PERMANENT CEMETERIES (AMENDMENT) BILL 1987

Bill read the First time and ordered to be set down for Second Reading pursuant to Standing Order 41(3).

Second Reading of Bill

CHINESE PERMANENT CEMETERIES (AMENDMENT) BILL 1987

THE SECRETARY FOR DISTRICT ADMINISTRATION moved the Second Reading of: 'A Bill to amend the Chinese Permanent Cemeteries Ordinance'.

He said: Sir, I move that the Chinese Permanent Cemeteries (Amendment) Bill 1987 be read the Second time.

The Bill seeks to amend section 3 of the Chinese Permanent Cemeteries Ordinance to make the Director of Regional Services an additional ex-officio member of the Board of Management of the Chinese Permanent Cemeteries. To ensure that the total number of members of the board remains not less than 12 nor more than 20, a minor consequential amendment is made.

Section 3 of this Ordinance provides for the Secretary for District Administration as ex-officio Chairman, and the Director of Buildings and Lands and the Director of Urban Services as ex-officio members of the board. The Director of Urban Services exercises supervisory control on behalf of the Urban Council over private cemeteries in the urban area. In the New Territories, similar function is performed by the Director of Regional Services on behalf of the Regional Council.

At present, the board manages three cemeteries located at Aberdeen, Tsuen Wan and Chai Wan. A new site at Junk Bay has been granted to the board for the development of a new cemetery which will come into operation in 1989. The Director of Regional Services is expected to become increasingly involved in the board's activities, it is therefore proposed that he should also be made an ex-officio member of the board.

Sir, I move that the debate on this motion be adjourned.

Motion made. That the debate on the Second Reading of the Bill be adjourned.

Question put and agreed to.

Private Bill

First Reading of Bill

FRANCISCAN MISSIONAIRES OF MARY INCORPORATION (AMENDMENT) BILL 1987

Bill read the First time and ordered to be set down for Second Reading pursuant to Standing Order 41(3).

Second Reading of Bill

FRANCISCAN MISSIONAIRES OF MARY INCORPORATION (AMENDMENT) BILL 1987

MR. PETER C. WONG moved the Second Reading of: 'A Bill to amend the Franciscan Missionaires of Mary Incorporation Ordinance'.

He said: Sir, I move that the Franciscan Missionaires of Mary Incorporation (Amendment) Bill 1987 be read a Second time.

The Franciscan Missionaires of Mary in Hong Kong is a corporation sole incorporated under the principal Ordinance in 1955. As Members may be aware, in addition to their missionary work, the corporation undertakes a number of other activities which include the promotion of education, the relief of poverty and sickness, and other charitable and social services.

The corporation holds various landed properties in Hong Kong, one of which, Sir, is no longer required. In order to avoid incurring further cost in maintaining the property, the corporation has decided that it should be disposed of.

However, Sir, the present provisions of the principal Ordinance do not include an express power to sell or dispose of properties held by the corporation. The purpose of this Bill, Sir, is therefore to provide for such power.

The opportunity has also been taken to amend a spelling error in the name of the corporation. The incorrectly spelt 'Missionaires' will be substituted by the correctly spelt 'Missionaries'.

Sir, I move that the debate on this motion be adjourned.

Motion made. That the debate on the Second Reading of the Bill be adjourned.

Question put and agreed to.

3.00 pm

Adjournment

Motion made. That this Council do now adjourn—THE ATTORNEY GENERAL

HIS EXCELLENCY THE PRESIDENT: Twenty-one Members have given notice of their intention to speak, so I propose to exercise my discretion under Standing Orders to allow Members adequate time to complete their speeches, and also adequate time for Official Members to reply to those speeches before putting the question on the Adjournment.

Central Provident Fund

MR. CHAN KAM-CHUEN: Sir, the idea of establishing a central provident fund was raised more than a decade ago. However, to observe the problem is easy, but to be able to propose a workable solution with the minimum of resources and the maximum of benefits and acceptable by all parties concerned, is much more difficult than lip-service criticism. After months of interviewing the public, gathering opinion and background information, and numerous joint meetings of the ad hoc group for this debate and the standing manpower panel of OMELCO, the Members present, and I repeat, the Members present at the joint meeting on 5 May 1987 finally agreed to the following points in common which were reported back to the full Legislative Council in-house meeting on 8 May 1987:

(1) That the problem of the ageing population needed to be properly addressed as it was expected that the increase in number would impose a heavy burden on existing social security systems in the years to come.

(2) However, the setting up of a central provident fund is one of the solutions to the problem. In identifying a practicable solution, due care must be taken to ensure that no adverse effect would be brought forth to the economy of Hong Kong.

The debate today by 21 Members will give you, Sir, a full spectrum of conflicting reviews on these controversial issues. As legislators come from a cross-section of our community and have different backgrounds and interests, so let the hundred flowers bloom Hong Kong style, and hopefully, these flowers may bear some sweet fruits.

As the convener of both groups balancing on these conflicting forces, it is quite comfortable as long as one maintains impartiality and remains detached. I have kept my personal views for this moment which I will say without fear or favour.

Background

The abuse of neo-Confucianism brought attack on the useful and good parts of Confucianism and placed self-interest above the harmony of the family and society, and view filial piety as exploitation of the children by their parents. But these attackers on Confucianism did not have a time-tested philosophy or system to fill the vacuum left behind by their destruction. This brought about the disrespect and abandoning of children's responsibility of upkeeping their parents who are left in hospital beds without home addresses and in one of the housing estates, an elderly parent was dumped into a garbage room. This sad event would not have happened if the parents have some money to support themselves and maintain their human dignity.

There was a Chinese story in which a father overheard his children planning to drive him out of their home. He stacked several heavy trunks securely locked beside his bed. Each night, after locking his bedroom doors, he started counting and recounting his few remaining silver coins audibly and marked down an ever increasing false sum of coins, making his children believe that their father was only a miser but had a large hoard of silver. Thereafter, each child tried to outdo the other in better treatment to their father, hoping that a bigger share of silver would be left to them after the father's death. After the father died, they opened the trunks and to their disappointment they found only stones and a note (如無石子,餓死老子), that is 'Without these stones, father would have starved to death'.

I have no interest to declare as I have passed my retirement age of 60 and have collected my retirement lump sum. Civil servants on the permanent and pensionable establishment are even better. They may opt for a lump sum plus reduced pension or an unreduced pension. Those who work in big hongs and

Government may be looked after from cradle to grave and it would be hypocrisy for us to say that we do not support that other employees in the private sector should not retire with some benefits for their sunset years.

The Mencius ideal is (頒白者不附戴於道路矣,七十者衣帛食肉), that is 'Grey-haired men will not be seen upon the road carrying burdens on their backs, and persons of 70 may wear silk and eat meat.' Has this materialised in prosperous Hong Kong? In reality, Hong Kong employers also have their difficulties, especially the smaller establishments with under 50 employees. In the third quarter of 1986, according to page 7 of the Hong Kong Monthly Digest of Statistics, February 1987 issue, there are 165 377 such small establishments which is 96.8 per cent of the total 170 692 establishments in the major divisions of employment for manufacturing, wholesale/retail, import/export; restaurant/ hotels; financing, insurance, real estate and business services. The number of workers and percentages are 913 556, 54.83 per cent and 1 666 219 respectively. Some of these small establishments are family businesses employing one to nine employees and owners business and profit is marginal. They sometimes have difficulty in paying for their goods and their wages.

Bone of contention

Some workers wish to contribute 5 per cent and ask the employer to contribute 5 per cent or more, and some even ask the Government to contribute. This is the bone of contention and I propose we should remove it. As employers view the extra 5 per cent as a hidden request for increase in pay and reduce the competitiveness of their goods and may result in less profits and jobs. If Government contributes a huge sum, it will certainly mean a hefty increase in taxes which will be detrimental to the economy.

I usually ask representative whether they have worked out what size of contributions or retirement benefits they expected and have they got experience in managing a retirement fund. Few can give answers. Some vaguely say a lump sum of $300,000 would be required on retirement, but what happens after spending the lump sum? I wonder how they could sell their idea to the workers, without being able to state in dollar terms the monthly contributions and retirement lump sums or other benefits.

My proposal to remove this bone of contention is to require no further contribution from employers. A monthly contribution of $150 or a diminishing 5 per cent of the average worker's 13 month per annum wages would provide the following benefits:

Individual calculation

Working age 18-60 equals to 42 years or 504 monthly contributions of $150. Profit or interest from managed investment at 10 per cent per annum or 0.83 per cent per month. By using the 'sinking fund formula', capital plus interest on retirement would be $1,171,324.84. If the pensioner gets a lump sum as mentioned by interested parties of $300,000, balance for investment would be $871,324.84. Profit or interest for investment at the same rate would yield $7,261.04 per month. If the pensioner gets a monthly pension for life of $3,000, this leaves a safety margin of $4,261.04 which would be left to cover collectively as insurance for untimely death of any employee, administrative fees or additional benefits. This $3,000 per month pension would be given to his or her spouse after his or her death and on the death of the spouse, the pension may be shared by the orphans of dependant age. A conservative profit or interest of 10 per cent per annum is quoted. In fact, many fund managers of large banks can do much better for many years.

Macro calculation

I have also done that and it is viable, but I prefer to leave it to our future high-powered working party, if appointed, to put in the variables such as the birth, death, unemployment rates; how much to be paid for premature death; how big the lump sum of monthly pension should be. My calculations are done on a small business calculator and more variables and sensitivity tests should be done by computers.

If this scheme is open to all members of the public, that is a fund of the public, by the public and for the public, then employers should not bring in the argument of less money being recycled into the consumer market. Hong Kong's free economy is used as an argument, then whether the employee chooses to save or spend his or her $150 per month, is their freedom, otherwise it would mean employers want 'what is yours is mine, and what is mine is my own.' However, if the workmen do not want this scheme, then it is a non-issue. There is also no guarantee that an employee would not travel and spend more than $150 in another country.

Existing retirement schemes

My proposal sidesteps the problems which may be caused by merging existing private retirement schemes or provident funds into the CPF. Hence, the incentive of attracting employees to stay with a good employer and leave the bad employer remains the same.

Investment

In 42 years, the accumulated macro capital and profit is estimated to be some $2 trillion. It is important that this trust fund should only be controlled by the Government but the Government cannot dip their fingers into this pot of honey. Although by then, we do not know whether $US1 would be equal to SAR$7.80, but as the reserve fund, it could be placed in a basket of currencies. Fund managers of large and reliable banks have not refused to invest large sums of astronomical scale for Hong Kong clients in foreign investments and the foreign currency interests and profits can come back to Hong Kong. It is just the art of apportioning the investment portfolio to avoid damaging the Hong Kong economy. We should learn from the faults of others and make only a small and fixed monthly contribution with limited benefits, at least, only used to augment the daily necessities and make life after retirement easier. Hence, no inflation factor is included for both contribution and benefits.

This is an important confident-booster to those who will have to stay in Hong Kong after 1997 and it may be remembered as one of the most important benevolent measures or safety-nets such as public housing, especially for the aged, cheap medical treatment, free education and so on, left by the British Administration.

I shall again quote from Mencius (今恩足以及禽獸而功不至於百姓者，獨何與？), 'Now, here is kindness sufficient to reach the animals, and no benefits are extended to the people. How is this?' and (挾太山以超北海是誠不能也，不爲長者折枝是不爲也) 'Taking the T'ae mountain under ones arm and leaping over the north sea with it is really an impossible task, but to refuse breaking a branch from a tree for an elderly man is a case of not wishing to do it'.

In conclusion, I request you, Sir, to appoint a high-powered working group like the Protection of Wages on Insolvency Fund which removed the anger of many unpaid workers in bankruptcy cases with only $100 per annum for each Business Registration Certificate or 27.4 cents per day. As one cigarette costs us about 40 cents, this is the price of a cigarette butt. If you look hard enough at the problem, it is true that where there is a will, there is a way. The insolvency fund is working well and a good surplus is accumulated to weather the turbulent and uncertain investment climate of the transition period. The only bone of contention left is the inconsistency in the policy of charging administrative fees to various funds. The majority has no charge. Some at 2-2.5 per cent but the insolvency fund is fully charged, and a recent fund was announced to be charged at 2.5 per cent. I mention this and hope that the CPF will not suffer these prejudices because it only benefits the working class.

With these observations, Sir, I support the motion.

MR. SOHMEN: Sir, I am grateful to my colleagues for allowing me to speak out of the order of precedence, because I have a plane to catch later tonight. I shall be very brief and very general. I suppose if I had brought my personal signboard, I could have kept it even shorter.

When I travel around the world and try to explain the essence of Hong Kong's success story, I invariably refer to the diligence and the dedication of our working population as one of the Territory's most important assets. There is no question but that we should therefore look after our industrious workforce. But in these same discussions, I also always mention that our whole economic system and our policies are based on the strong belief in the benefits of allowing maximum individual choice. Our taxation is low and our tax system is simple for good reasons; Government does not indulge in giving subsidies other than for housing and tends to interfere with market forces only in exceptional circumstances. In Hong Kong, the citizen is allowed to keep most of his earnings to spend or to save as he sees fit, and is generally free to arrange his affairs as he thinks best for himself and his family. But he is also aware that should he fail in his endeavours he will find few safety nets. This state of affairs breeds self-reliance and provides strong motivation. I submit, Sir, that this is really the principal reason for the achievements that make Hong Kong the envy of the world.

Today we are debating the pros and cons of the setting up of a central provident fund, a very complex subject indeed. I am surprised that the call for an increase in taxation, and for ceding to Government the authority to decide how and what we should individually save and how these savings should be invested—after all, this is what a central provident fund actually does—is finding support in Hong Kong. It runs counter to our traditional belief in freedom of choice, and the introduction of a central provident fund could well be the beginning of the end of Hong Kong's ability to progress through a proven reliance on outstanding individual effort.

While a central provident fund does not of course produce a welfare state, it could be the first step towards one. Are we happy to accept both the short-term disruptions to our economy and possible loss of our competitive edge, as well as the longer-term negative impact on our attitudes? Are we prepared to leave very large amounts of our collective savings in the care of others, since clearly they could not in total be invested in Hong Kong? Is a central provident fund really the best answer to the problem of finding protection for the elderly or the unemployed, and would we not be moving away from a policy of providing only for those truly in need, to the imposition of benefits also for those who do not wish or require assistance? Will the return on a central provident fund necessarily be as good or better than the yields from individual investments or insurance arrangements?

If any or most of the answers to these questions are in the negative, then I would suggest that a case has not been made out for a central provident fund and that we should restrict any studies on how to move forward to the available alternatives. These include the continuation of social welfare regimes for those qualifying, funded from general revenue; compulsory but decentralised private provident fund schemes operating under standard terms and conditions, or the political and legal encouragement to foster the growth of voluntary private schemes throughout the Territory, leaving the employment market itself to add, over a period of time, the necessary impetus towards standardisation and portability of benefits. I personally favour the latter solution, not because of a lack of care or to evade the issue, but in order to promote a solution that can produce, in the special Hong Kong context, the desired results while preserving our basic strength: the will and the determination to succeed by individual effort.

Sir, I support the motion.

DR. HO: Sir, in the light of our ageing population, arising from longer life expectancy, some long-term plans should be formulated to provide for old age and retirement. However, there are verging views between different social and financial groups and government working parties on how best to achieve this goal of social security. After carefully weighing the deliberations and comments expressed, I am of the opinion that it is in the best interests of Hong Kong to adopt a system of private provident fund schemes with the following major characteristics:

1. the fund should preferably cover all wage earners in the same establishment;
2. contributions to be made by employers and employees at the same rate;
3. benefits to be calculated on the basis of the balance, credited to the employee's account plus interest gained;
4. benefits payable upon retirement or invalidity or to be transferable to another retirement scheme on change of employment, or payable to his survivor in the eventuality of death;
5. management of the fund by private investment institutions;
6. the fund to be subject to government monitoring and regulation.

In the initial years of implementation, I would like to see the private provident fund scheme develop on a voluntary basis. Both employers, especially those of small- or medium-sized undertakings and employees, need to be educated of the functions and operationable procedures of such a savings scheme. It gives time for the bureaucracy to develop the necessary facilities and expertise to approve, monitor and regulate these schemes. At present there are some 4 700 approved private provident funds and retirement schemes catering for about 300 000 workers. It is not known how many schemes are in operation without the approval from the Commissioner for Inland Revenue. About 50 new schemes are approved each month for the past year. With conscious effort on the part of the Government to encourage and promote the setting up of such savings schemes, I am confident that the growth of private provident funds will be further accelerated. Under these circumstances, there will be subtle pressure on the employers to establish similar retirement schemes in order to improve their position to recruit and retain their workforce.

A de-centralised provident fund scheme built on a voluntary basis only generates an incremental impact on the financial market, and limited disruption to the industries performance, thus making it much easier for the economy to adjust and to maintain its equilibrium. A run-up to 1997 is a most sensitive period. The massive abrupt disruptions associated with the introduction of a compulsory central provident fund, would prove to be too devastating for our economy and would shatter business confidence, local and overseas. This economic prosperity, is the very base for Hong Kong's stability and future.

As the provident fund scheme is a very complex system fused with many uncertain long-term implications and far-reaching consequences, I suggest that before the Government hastily commits to this social security measure, a commission, composed of labour and employer's representatives and investment and actuarial experts should be set up to undertake an in-depth study of the issue.

With regard to the provident fund scheme itself, a number of important details should warrant serious consideration and discussion.

Firstly, the level of contributions to be kept affordable by both the employer and the employees. Apparently a contribution of 5 per cent by each party is acceptable. Perhaps employees with very low earnings may be excluded from the scheme for two reasons. The level of their wages is barely adequate for their subsistence. Contributions, if made, are so low that the benefits payable upon retirement are insignificant for social security purposes. The employer's liability in respect of contributions may be limited to a maximum earnings ceiling of the employees. The better-off wage earners should be encouraged to resort to supplementary savings scheme in the private sector. This is consonant with the Chinese tradition of self-reliance.

Secondly, the types of contingency needs in respect of which benefit payments are made must be unequivocally defined at the outset. If the primary objectives of the private provident fund scheme is to protect against old age, benefits should be payable only upon retirement, invalidity or death. There are examples in other countries where benefit payments could be made under a variety of circumstances. For instance, home purchase, investment in shares and stocks, educaton or marriage of the employee's children or unemployment. The effects of broadening the scope of contingency needs to be covered, will result in raising the level of contributions to such an extent that it imposes an onerous burden on the wage earners and on the employers as well.

Thirdly, in most savings schemes operating in other countries, retirement benefits are payable in a lump sum. Some fears have been expressed that the recipients may squander the life-long savings in economically unsound pursuits, consequently alternative forms of payment are proposed. The beneficiary may be paid by periodic instalments or advised to purchase annuity schemes. I wish to strike an early warning against linking the benefit payments to the beneficiary retirement date salary because this mood of benefit calculation subjects the employer to an open-ended financial commitment, possibly in the worst cases, causing bankruptcy threats to his businesses.

Fourthly, some sort of legislation must be enacted to empower the Government or a statutory body to regulate and supervise the operation of the provident fund entrusted in the various investment institutions. Some standard minimum requirements and procedures may be made so as to enable transferability of benefits to other savings scheme on change of employment. The proposed statutory body will be charged with the responsibility for promoting provident funds.

Lastly, tax relief may be considered for the employees' contributions to the provident fund. This fiscal incentive will go a long way to encourage wage earners to participate in the savings scheme for old age. At present, the employers' contributions are already tax deductable. The proposed commission, should examine the provident fund scheme in the wider context of the current social security and labour provisions, with an intent to providing the retired employees with greater protection. My hon. Colleague Mr. F. K. HU agrees with me on this suggestion.

Statistics indicate that the elderly singletons constitute the single largest group on public assistance, taking up roughly 70 per cent of the case-load. Furthermore, dependency on public assistance increases, as people advance in age, especially after the age of 75. It is therefore logical, that the commission should review the Public Assistance and the Old Age Allowance Schemes and other social security benefits for the elderly, as these welfare provisions form the major source of income for the destitute elderly.

In addition, the existing long-service and severance benefits and other labour legislation, should also be reviewed and extended. Such conditions as the qualifying age of the worker, the maximum compensation and other pay entitlements should be modified in the interests of the workers.

To conclude, Sir, I do believe that the three-pronged approach as expounded in my speech, is able to provide adequate social security protection for old age. Employers see provident funds as the means with which to advance the welfare of their workforce and to foster a harmonious labour relation at a known cost, while employees see the provident fund as the vehicles which release their self-reliance initiative. The Government is seen to have discharged these caring functions through a package of improved welfare and labour provisions to look after those residents least able to help themselves. Concurrently, our economy is only subjected to minimum disruption with the prosperous and stable future of Hong Kong being most unlikely threatened.

MR. CHEONG: Sir, some commentators have alleged that the industrialists unfavourable response to the setting up of a central provident fund has been due to self-interest only, and that employers by and large are insensitive to the welfare of their employees. Allow me to take this opportunity to set the record straight.

Nowadays, Hong Kong industrialists, especially those who have been successful in establishing a foothold here, are much more conscious of the need to look after their employees than they have been given credit for. The continuous evolvement and enactment of labour legislations in the past 15 years, with the most recent example being the provision of long-service benefits, do indicate that most responsible trade and industrial organisations, do lend support to efforts in the quest for continuous improvements to the working condition of our workforce.

Sir, having talked to many industrialists on this issue of retirement benefits, my assessment of the situation is that industrialists are not against provision of benefits to our workforce per se, they are simply anxious that no legislation should be pushed through or imposed without careful examination and consideration of the adverse impacts, if any, on Hong Kong's economic well being. One naked truth perhaps needs to be said here, and that is, there is no way in our view, that any provident fund should be imposed on top of the long-service payment benefits. The reality of Hong Kong business enterprises having to compete in the world markets against other countries, must be recognised. For Hong Kong to have a reasonable chance to survive economically, we need to maintain continuously our ability to export our goods and services. Also, given the fact that over 80 per cent of the business enterprises in Hong Kong, be they the manufacturing sector, wholesale/retail, import/export trades, restaurants and hotels or even financing, insurance, real estate and business services sector, is made up of small-size business employing less than 20 persons per establishment, the impacts and implications of any imposed compulsory scheme which would adversely affect the continued viability of these small enterprises, need to be considered very carefully as well. Collectively, Sir, these establishments employ a total of 640 000 people. If, as being suggested by some, that these establishments be allowed to be exempted from any compulsory schemes, how can we possibly answer to nearly 30 per cent of our working population? After all, these are possibly the very people who need the most help in the years to come.

Hence of late, the business community has felt, rightly or wrongly, that the issue of central or compulsory provident fund has been pushed to the forefront by activists who sometimes deploy tactics that invariably invoke the much used phrase 'Wishes of the people'. Their actions, though understandable for political reasons, are in my view, not really conducive to an objective detailed analysis of the important issue of provision of future retirement benefits. It is of course convenient to claim that any society is an ageing society, and that care for the aged is a problem we have to grapple with, but what is the magnitude of such a problem in Hong Kong now? How does Hong Kong compare with other countries in moving towards a so-called ageing society. What are the alternatives, if any, in the provision of a solution to this problem? Would the compulsory provision of retirement benefits really solve, most if not all, of the problems in providing some help for our senior citizens? Should we provide for all senior citizens or should we adopt the policy as we have correctly done so now, and that is to provide only for those who are least able to help themselves. What are the more significant impacts on Hong Kong's future economic development? Can we draw some lessons from other countries?

Sir, there are a whole host of other relevant questions that we have to find some clear-headed answers to before we can made a decision on the course of action which will surely have very long-lasting impacts on the economic viability or otherwise of this beloved community of ours. It should never be looked at as a means to merely achieve the goal of redistribution of wealth. It should be looked at from the macro view and we should find out whether or not a hastily imposed scheme would endanger the very economic survival of Hong Kong that we have all strived so hard for. The Federation of Hong Kong Industries, did try to analyse and address these problems from a macro angle, and has come to some preliminary views. A paper on this has been published for public reference and I do not wish to repeat it here.

Let me hasten to add that the above-mentioned attempt to study the problem, in my view, is by no means final. In fact, we do recognise humbly that the analysis could have been made in more detail, especially in the areas of studying the fiscal and monetary impacts on our economy via changes in saving ratio and consumption behaviour. Accordingly, it has been made clear that the federation supports the idea of a detailed and objective study of this issue through a government appointed commission. Towards this end, Sir, perhaps it is worth mentioning that a project team comprising seven accomplished and intelligent officers attending the Senior Staff Course No.7, has made a very useful start in studying these problems in reasonable depth. Their approach and methodology in my view, have been logical, scientific and objective. It will be well worth the while of any serious student on the subject, to read and study the report of this project team even though not everyone may bring themselves to agree with their findings.

Sir, with your indulgence and with the permission of the project adviser, I would like to quote their significant findings below:

'1. The need for the support of the elderly appears not to be pressing at present. Only 6.7 per cent of the elderly population now require public assistance. This percentage has remained more or less the same over the last seven years.

2. Substantial savings could be achieved if the old age allowance was made means-tested.

3. There are no indications that traditional support of the elderly in a Chinese family structure is deteriorating significantly.

4. The low-paid workers and 75 per cent of our workforce, receive an annual salary of $HK4,000 or less. The low paid workers who are least able to provide for their old age through savings, are the primary target group in need of assistance, and should be given priority consideration under any scheme.

5. Economic prosperity and political stability are of prime importance to the future of Hong Kong and must not be put at risk with ill-conceived, unacceptable proposals.

6. It is uncertain whether workers genuinely want a compulsory provident fund scheme.
7. Since the introduction of the statutory requirement for long-service payment, more private provident fund schemes have been set up, as such schemes waive responsibility from the long-service payment requirements.'

Finally, Sir, it has been generally established by economists such as Feldstein, a former Chairman of President Reagan's Council of Economic Advisers in USA, that the better the provision through Government of social security, the lesser a citizen would desire to save, leading to a shrinking of re-investment resources for further economic development. Furthermore, Feldstein estimated that the US Social Security System has reduced personal savings by as much as 38 per cent, leading to a reduction in cumulative capital resources for re-investment, thereby contributing to a reduction of the GNP growth of the United States up to 1972 by as much as 11-15 per cent. Projecting that scenario to Hong Kong for a moment, it would perhaps be worth nothing that our past growth has been due to the hard work as well as to the available personal savings of our entrepreneurs and their friends or families, that provided the needed impetus and capital to work, be successful and move up the social ladder. Many of our very successful businesses had very humble beginnings, and I dare say many more future success stories will have the same humble beginnings. Our future policies, whatever they may be, must never impede the continued development of such opportunities made available to our citizens. Central provident fund is no more than forcing personal savings into a pool of savings to be run and controlled by the state, thereby freezing the use of such resources until 20 to 30 years later. This freezing of available assets, would no doubt have tremendous effects on the continued development of our economy. It might even hamper the chances of future success stories of people moving up the ladder from humble beginnings to successful entrepreneurs. Hong Kong as a whole has prospered so far because the right environment for the development of entrepreneurship within our community has been provided. Must we not maintain such ingredients for our future economic survival. If so, I strongly urge that we must exercise extreme caution and must never be too hasty in deciding to induce forced changes to our parameters of success.

MR. CHAM: Sir, investment is a combination of art and science which accepts risk in return for yield in the future. In essence, a central provident fund scheme represents forced savings on employees as in the long run, real wages will be equal to the package of salary plus benefits which is adjusted to reflect labour productivity in Hong Kong's free enterprise economy, although in the short run, salaries may be downward rigid. These savings are channelled into investments for subsequent withdrawal upon retirement. Hence its implications on investment must be examined.

In a relatively young society, forced savings will be channelled into investment in the early years. Recent estimates of initial contributions to the fund may range from $5 billion to $10 billion per annum. Although the average market capitalisation of our stock market at the end of 1984, 1985 and 1986 was $291 billion, yet the annual average value of equities, warrants, unit trusts and loan stocks traded in the stock exchange for the past three years amounted to an average of only $83 billion. Thus, coupled with any requirement for the fund to be invested in Hong Kong, this will create an impact on the equity market as well as our debt market.

As the scheme proceeds in the future, there will be a demand for withdrawal of the fund as the population ages and family planning reduces subsequent contributions to the fund in terms of number of employees. Outflow in excess of inflow in the fund will represent a net drain on the fund. It is this time in the future when the liquidity of the fund hinges on the prevailing state of the capital market which can create pressure on our debt or equity market, not to mention the difficulty of liquidating poor quality investments. We have witnessed in recent months that the secondary market on debt instruments has suddenly become inactive as sellers appear in increasing numbers. Indeed, good management and proper supervision may help but no one can avoid the changes in the market-place.

Whether investments of the fund must be restricted to Hong Kong instruments is an important point which must be addressed. Confining investments in Hong Kong will no doubt ensure easier supervision and the benefits of the investment multiplier effect accruing to the Hong Kong economy. However, with a portfolio of significant size, this will inhibit flexibility and investment configurations. Alternatively, investments abroad may facilitate diversification but the lessons of the South Sea Company in the United Kingdom of a ephemeral stock not adequately covered by assets or trade must be remembered.

Another factor worth considering is the impact on inflation on withdrawal of the fund. While we can try to diversify investment portfolio for security as well as liquidity, it must be recognised that a diversified portfolio may have to sacrifice yield for quality. Upon withdrawal, the return on investment should hopefully be at least equal to the rate of inflation. In the event that the yield of the fund does not match the rate of inflation, to force all the employees to save involuntarily by legislation means that they are forced to lose out on the purchasing power of their hard-earned savings.

Sir, unless there is a major breakthrough in bio-tech engineering, ageing is a problem which we all cannot avoid. Hong Kong must address this problem realistically. Given the risks and uncertainties, I support the proposal for a commission, including employers and employees and experts, to study the issues involved, to ensure practicability, flexibility, and equity. Findings of the commission should be followed by wide public consultation.

MR. CLYDESDALE: Sir, employers generally are responsible people who are well able to appreciate the value to themselves and their businesses of contented and co-operative staff. The steady improvement of social security and legislative protection and support for working people which Hong Kong has experienced during the last three decades, owes just as much to enlightened employers as it does to government leadership and trade union activity on behalf of their members. Social development in the field of employer/employee relationships has been marked by largely harmonious tripartite discussion and agreement, particularly through the very successful Labour Advisory Board. This board is one of the best examples of effective consultation between interested sectors of the community on matters which impinge directly on economic development as well as social progress. I should like to take this opportunity of congratulating the Government generally and the Commissioner of Labour specifically on the principles and procedures which have been developed for the operation of the Labour Advisory Board. I wish other government boards were as representative.

The debate today is on an issue which is of great significance in the further development of our society and our economy. The question of a central provident fund has been under discussion for many months, indeed, has been strongly promoted by labour unions for some years, and it seems very clear that employers and employees have very different viewpoints, so different in fact that the Labour Advisory Board with all its experience and mutual goodwill has been unable to reach agreement on the fundamental question of whether such a system can be accepted in principle.

The Government's consultative paper on the CPF sets out in detail the considerations and the pros and cons which might affect the introduction of a CPF. We have all read this paper and most of us have had the further advantage of being addressed by various interested parties. It is impossible, of course, to consider the issue of a CPF in isolation from other directly related matters and I have therefore tried to develop a view which takes a broader scope of social and labour legislation into account.

As a result, I support the concept of an improved social security system for Hong Kong's aged people, but I cannot support the concept of a CPF as a means to securing this end. For all the reasons in the government consultative paper which tend to argue against the CPF, I am opposed to its introduction in Hong Kong. I believe that government involvement in such a scheme will discourage business investors and business investment, essentially because business, which would be paying directly into such a scheme yet have no control over its dimensions, would see no end to potential gradual increases in cost. Experience in other countries has shown this to be a very real consideration. Quite apart from the increasing burden of a scheme which has to deal with a higher and higher number of aged people retiring from the workforce, there would be immense problems in dealing with the huge capital sums paid into the scheme from day one. Assuming a contribution of 5 per cent of salaries from employees and 5 per cent from employers, these costs have been estimated at over HK$10 billion a year initially if all the workforce is to be covered. The investment of CPF funds on this scale by the Government would also require a substantial financial management system likely to be expensive in its own right.

A CPF would be bound to increase labour costs and although this would probably be absorbed and its effect reduced by general improvements in company productivity, employers in the manufacturing industries particularly would be seriously concerned with their overall competitive situation. We do not have the means to cushion the effects of increased production costs in industry through domestic pricing mechanisms. Over 90 per cent of our production is exported and our products must remain price-competitive in world markets. Industry employers are already well aware of the steady annual increase in real wages in the industrial sector and, with full employment, must struggle to improve plant productivity to maintain their markets.

There is also the point that a CPF would not provide benefits for self-employed people such as, for example, hawkers, farmers, and retailers and there are hundreds of thousands of these. Other social security schemes would have to be developed for such people to maintain some degree of balance in the social security system.

Similarly, unemployed people and those who cannot work through sickness would receive no benefits at all from a CPF.

For these, and many other reasons which some of my colleagues on this Council have and will set out, I am opposed to any proposal to set up a CPF in Hong Kong.

There are alternatives. I believe we must now look closely at the possibility of developing some form of old age pension which ideally would not require means testing since means testing can be an expensive process, and which would eventually be open to all qualified Hong Kong residents at age 65. There is already an old age allowance scheme which is not means tested and which provides a monthly allowance of $255 for any person of 70 or over who registers to receive the allowance. This could be further developed and improved progressively in terms of age qualification and cash payments.

The principle of an old age pension is accepted in all advanced countries and I believe Hong Kong is now sufficiently developed to consider how best our aged citizens can be given the degree of security which they have earned from a lifetime of work in Hong Kong.

The Government would be responsible for the payment of old age pensions and the cost would obviously have to be met from general revenue. I appreciate that the funding of such a proposal would have to be very carefully considered, but I believe our economy could accept the financial cost. The social benefit would be enormous.

Sir, I wish to make it clear that these are my personal views and might not have the unqualified approval of the organisation I represent. I feel, however that my task today in this Council is to do my best to help in the continuing search for the best social security system that we can afford. I therefore propose that a commission be set up to study the present social security system in its entirety. Such a commission could be asked to consider the development of an old age scheme as part of its terms of reference.

Sir, if the Government decides that a CPF should not be introduced in Hong Kong, then the way is clear for an improvement in existing social security measures. However, these must be looked at as part of an overall system which not only provides comprehensive services at an acceptable cost but which is developed as a whole rather than as a series of related but unco-ordinated measures whose cost cannot be accurately assessed.

MR. CHEONG-LEEN: Sir, in speaking briefly to the motion, may I say that I am of the view that Government should make a more thorough study of the need, the practicability, and the relative benefits to be derived from some form of compulsory private provident fund system for the people of Hong Kong. In this respect, may I just make a few observations.

First, in the light of all the information I have studied so far, I do not believe that the central provident fund system is suitable to Hong Kong's free enterprise conditions where our economy must be flexible, dynamic, and competitive with the rest of the world.

Second, this question should not be approached on a piecemeal basis but within the broader framework of the existing types of social security provision so as to progressively build up for Hong Kong people the highest level of social security network we can afford without killing the golden goose of a stable and prosperous economy.

Third, I think that provision for old age or retirement is an important factor to be considered, not only for those in the lower income brackets, but also for the white-collar or sandwiched groups.

Fourth, I am in favour of action being taken to promote further development of private provident and retirement schemes by means of a widespread campaign by Government and that at a later stage, say two to three years from now, legislation be introduced to make it compulsory should the study by Government show that it would be practical and desirable to introduce such a legislation.

Fifth, while the study is being carried out by Government, the existing framework of social provision such as the long-service payments system, possible improvements to the public assistance and special needs allowance schemes, old age benefits and so on, should be reviewed with relevance to the possible setting up of a compulsory private provident fund system say within three to five years from now.

Sixth, I would like to emphasise that should it be recommended that a private provident fund system would in the long run be beneficial to Hong Kong's prosperity and the well-being of our people, legislation should be enacted to protect contributions to private provident funds.

Seventh, in order to generate more support on the part of employees for participation in a provident fund, Government should even now change the existing legislation to allow employee contributions to be tax-deductible and also interest income and gains earned in provident fund monies to be exempt from taxation.

MR. CHUNG (in Cantonese): Sir, whether we should set up a CPF to be managed by the Hong Kong Government at this stage, I think, is a problem with far-reaching consequences. Before we make any decision, I think we should carefully consider the following five points.

First, the needs of the employees. As far as the CPF is concerned, if the employer and the employee were to contribute 5 per cent of the employee's salary, then in fact, those earning high salaries may not care, but those earning low salaries may have difficulty coping with it. Therefore, the CPF is equivalent to a doubling of the salaries tax and we should therefore find out whether the employees really need this scheme or whether they are willing to accept it.

Second, the employers. Businessmen tend to feel that the CPF is equivalent to a doubling of the profits tax. It will also result in the raising of material and labour costs, thus reducing the competitiveness of our industries. I feel that if we do not carefully consider the reaction of employers and set up this compulsory CPF, then under the principle of freedom of enterprise, it is very difficult to avoid or prevent the employers from redeploying their staff or cutting wages in order to cope with the extra burden imposed by the compulsory CPF. Under the circumstances, the long-term contributions of the CPF cannot guarantee that the benefits of the employees will be protected.

Third, practical issues. Even if employers and employees are willing to co-operate, there are still a few practical questions. Nobody can predict what will happen after 1997 and whether the wages in real terms will continue to grow. How can we guarantee that the investments of the fund will grow steadily by a fixed percentage. Given so many unknown variables, it is hardly practical to set up a central provident fund on the basis of assumptions extending beyond the next 30 years. It is also a very dangerous thing to do if the effectiveness of this scheme is based on assumptions.

Fourth, economic pros and cons. According to our estimates, the CPF can enable Hong Kong people to save $10 billion a year. If there were no changes in the next 30 years, the capital sum accumulated would amount to $300 billion. If this large amount of money were accumulated and properly used, it would mean that the purchasing power of the salaried class would be reduced. The dynamics of the market would also be adversely affected, leading to economic stagnation and structural changes in our economy. Of course, if the contributions could stimulate productiveness and incentive and if the Government could find a way to provide proper management of the CPF and that the fund could be properly invested or put to profitable uses, then it would be a different story.

Fifth, the responsibility of the community. From the community's point of view, of course the Government will not cut down existing welfare provisions to the elderly. If this is correct, then there is one more hidden worry, namely, that once we start the precedent with the CPF, it will result in more demands for other welfare measures and both taxpayers and the Government will be under even more pressure in the future.

Based on those five points, Sir, it is obvious that, on the basis that we need to take care of the long-term interest of the employees, the CPF is a question of proper management and proper responsibility and I think that rather than asking the Government to set up a central organisation to manage the fund, it is better for the Government to encourage the formation of private provident funds.

Therefore, I suggest that, first, the Government should encourage private organisations to set up their own provident funds and to formulate a provident fund ordinance to solve the problem. And if the provident fund were transferable, it could increase the competitiveness among industries and result in more harmonious labour management relationships, thus contributing to the stability and prosperity of Hong Kong. The Government should play a monitoring and supervisory role in preventing the funds from being misused and in order protecting the benefits of the employees. Based on the principle of freedom, taxpayers do not want the Government to make any financial commitments.

Second, on the basis of existing social welfare facilities, Government should lay down a comprehensive policy for the aged, especially with regard to the respect and care of the elderly, the expansion of recreational and medical facilities, the provision of housing units and the allocation of appropriate subventions to the homes for the elderly. The Government should help to complement so that we can have a neighbourhood mutual assistance scheme for the protection of the old and the young and everybody in the community will benefit.

Third, we should make the existing long-service payment scheme more comprehensive and provide for an extra provision so that those who resign on their own accord with good reasons will have their long-service payments. The purpose of amending this Ordinance is to prevent any employers from forcing its employee to resign and the employee concerned will get the benefits he is entitled to.

Sir, the success of Hong Kong depends on our free system and our flexibility. If Members feel that the setting up of a CPF is not workable, I hope the Government will consider the points I have suggested. Thank you.

MR. HO (in Cantonese): Sir, whilst colleagues of this Council and members of the public are actively exploring the various problems related to the central provident fund, the Government has at the same time set up two working groups to look into existing labour legislations, private provident fund, and the existing system of social security. Recently the interim reports of these working parties have aroused a lot of conjectures among people in the labour sector and the social work sector. They felt that the Government is trying to avoid the problem and to undermine the confidence of those people who are for the fund. I think this is over-sensitive. As far as I am concerned, the information provided by these two reports have not changed my view on the setting up of a central provident fund. I feel that a central provident fund, based on voluntary contribution, is very different in nature from social security measures such as public assistance and disability allowances which are designed to protect those who are unable to protect themselves. The latter should not, and cannot, replace the former. I believe if we are to reserve a part of our hard-earned income as a safeguard for our livelihood after we retire is only reasonable, and social measures should only be left to those who are least able to take care of themselves.

Sir, I am very happy to see that in studying the existing social security system, the working group chaired by the Secretary for Health and Welfare has arrived at a conclusion that the problem of the aged is not very serious and there are figures and data to substantiate the findings. However, I cannot rest at ease and I am not sure if there would be a rapid increase in nuclear families and less children would be willing to take care of their old parents or there would be other social factors which might cause a rapid increase in the demand for social security services for the elderly in the future. Would those things happen? Sir, we know it is an undisputed fact that the population in Hong Kong is ageing and according to the Census and Statistics Department's estimates, by the year 2000, people aged over 60 will reach 900 000, that is 14.1 per cent of the total population of Hong Kong. But even if my worries do not materialise, in other words, if the number of social security cases involving the elderly does not increase and the existing level of assistance for the aged is maintained, I still foresee that by that time, we would be spending large sums of money on social security services for the elderly and it would be a heavy burden for the Government then. If the matter is not dealt with properly, it would even affect our social prosperity and stability. Sir, to draw up a plan early enough and in good time to deal with the problems that would come with the ageing population is a responsibility that the Government should not avoid. I would urge the Government to carry out in-depth, detailed and serious studies to look into various alternatives, including voluntary contribution schemes and compulsory CPF schemes.

Sir, according to the report of the working group chaired by the Deputy Secretary for Education and Manpower, we know that for the past two years the number of private provident funds have been increasing. This indicates that when the situation is right, the employer will take the initiative to take care of his retiring employees. According to my understanding, with increasing competition, more employers will be willing to provide more benefits, including central provident funds, to attract and retain better workers. I think the Government should value such a trend and take active measures to provide direct or indirect assistance to such employers; say, for instance, in giving them further tax reliefs to encourage them to set up their own provident funds so as to prepare for the problem of an ageing population. Before we can have a comprehensive study of private provident funds, I feel it is not correct for us and it is not possible for us to accurately assess whether we do need a compulsory central provident fund in Hong Kong.

Sir, I feel that regardless of whether we set up a compulsory central provident fund or a voluntary provident fund, the Government should only play a legislative and supervisory role. The Government should not be a decision maker as far as the investment strategies are concerned, nor should it be responsible for the whole fund itself. There should be the necessary legislation and code of practices drawn up to ensure that the fund will operate on a fair and sound basis. If the Government should take part directly in the protection and investment of the fund itself, it would lead to a lot of problems. One of the most obvious problem is the concentration of a huge sum of money in the hands of the Government and that will affect the economic activities of Hong Kong; and, of course, if the Government is to undertake investment measures, that will certainly interfere with the operation of the market, and all these are not beneficial to Hong Kong.

Sir, finally I would like to urge the Government to set up, as soon as possible, an ad hoc group with representatives from employers, employees, government departments and the financial sector, to look into the possibility of the setting up of private provident funds and to encourage the commerce industrial sectors to set up such a fund. A report should be completed within one year so that the relevant proposals can be implemented at an early date.

Sir, what I have said just now incorporates not only my personal opinions. My proposal that encouragement should be given as far as possible to the establishment of private provident funds prior to considering the setting up of a compulsory provident fund has the support of Mrs. FAN.

MR. HUI (in Cantonese): Sir, we have had intermittent discussions for over 20 years on the question of whether we ought to have a central provident fund in Hong Kong. It is only today that we are holding the first adjournment debate on this matter in this Council. Is this not rather ironic to a Government which has always boasted of efficiency and openness? At this historical stage, I would gingerly express the views of countless people who are in support of the setting up a central provident fund and yet at the same time, I want to express regret and dissatisfaction towards some government officials who, when dealing with this problem, have been unfair, reluctant to face realities and are afraid to take up commitments for this society.

After so many years of debate, we did not see diametrically opposed views. We have now got a few points of general consensus. Unfortunately, the Government has not further discussed and adopted those points of consensus.

Conversely, they have set up two working groups internally to study the existing labour legislations and private provident funds, and the existing social security problems. And even before this adjournament debate, they have released some equivocal data with the view of avoiding the responsibility that Government should take over this matter. For this biased approach, I think I should reprimand the Government.

Sir, as far as I see, the first point of consensus is that the manpower panel of this Council, the Labour Advisory Board, and the Social Welfare Advisory Committee, all have their representatives accepting the fact that the population of Hong Kong is growing old and in future the social security and livelihood of the retirees will become a heavy financial burden for the Government.

However, a working group headed by the Secretary for Health and Welfare has provided us with the following three statistics to show us that the problem of the aged is not as serious as we all think. The three statistics are, according to the 1986 bi-census, the regular rate of employment of old people between the age of 60 and 64 reached 43 per cent and those over the age of 65 reached 18 per cent. Secondly, the same survey showed that 80 per cent of people over the age of 60 are living with their families. And, thirdly, in the year 1985-86, people over the age of 60 receiving public assistance make up 68 per cent of the number of recipients. However, there is a noted increase in the number of recipients who are over 75 years of age.

I am not doubting the accuracy of such statistics. However, I just want to point out that the Government is really playing with figures and lead us to believe some rather misleading conclusions. Firstly, the government officials feel that the very fact that the old people are taking part in active employment is a reason to show that there is no economic problem for the aged. However, I would say that the fact that even the aged have to work really reflects on the very fact that we lack a good social security system and a good retirement system. Otherwise, why would somebody who has already retired and who is already over 60 years of age has to spend his very last years working at menial jobs for very little income? Hong Kong today is a prosperous international city. If we say that a large number of our elderly are taking part in gainful employment and therefore have no problem in making a living, I think this view is very regressive and inhumane.

Secondly, it is said that 80 per cent of old people, age over 60, are living with their families. This does not mean that we can rest at ease. According to the bi-census of 1986, the median income of our labour force is $2,573 per month. How then can we expect these workers to take care of the elderly and their families with such a low monthly income? This actually shows why old people are taking part in the labour force and why they have such a high employment rate. Actually a lot of family disputes arise because the children are unable or unwilling to take care of their old parents. According to a survey conducted in 1984, old people who depend on their children for a living usually have a very poor relationship with members of the family. Actually, the setting up of a central provident fund aims at bringing greater financial and economic independence for the retirees so they will become a more welcome member in the family. Why should the Government not value this particular point which would lead to social stability?

Though the statistics show that only people above the age of 75 will be greatly dependent on social security, yet that does not mean that people who are below the age of 75 will have no problem making ends meet. It just shows that the annual payment of $510 is really too low. Old people, if they are still active, would rather work harder and earn a slightly higher salary than to just depend on the social security payment which is insufficient to meet ends given the inflationary rate.

According to the statistics, in January this year, 64 per cent of the recipients of public assistance are above 60. In other words, 40 575 old people are receiving public assistance. Such simple figures will show us how reliant our aged population are on public assistance. Why does the working group only make use of statistics regarding old people who live alone? Is the Government trying to mislead the general public? Actually what the Government should pay attention to is that by the year 2001, 14 per cent of our population will be 60 or older. If we look at the ageing rate, the degree of dependence of the old people on public assistance schemes and the public allowances will be increasing all the time and by 2001, the Government could well be paying $8 billion in the way of allowances and assistance to the elderly. This undoubtedly will be a very heavy economic burden as far as public expenditure and the maintenance of a low tax rate is concerned. Why is the Government so unwilling to consider a contributary central provident fund system to solve the problem of the retirees.

Sir, I now come to the second point of consensus, and that is both in the arguments for and against a provident fund. There is a general theme that provident funds are one of the possible measures to solve the problem of the retirees. Unfortunately government officials have not used this particular basis to study the possibility and the details of such a scheme. They have set up a working group headed by the Deputy Secretary of Education and Manpower to look into something which has nothing to do with retirement benefits. They have looked into the long-service payments scheme and the Protection of Wages on Insolvency Fund and they have done nothing to study the voluntary contributory provident fund scheme. I really cannot agree to such an irresponsible way of tackling matters.

Why is it that the employers can accept long-term service payments or even severance pay payments and yet refuse to take part in a central provident fund which will cost them almost the same amount of money. I think this is because for the latter scheme, the employer will have to contribute every month, whereas for the former, the employer will have to pay on every occasion. So finally they may even abscond and avoid all the responsibilities. We have seen such cases happening in the past. Does this mean that the working group is trying to encourage the employer only to look at the present and ignore the future and avoid their responsibilities? Why can't the relevant government officials pragmatically admit that, of all the labour legislations that we have at present, there is none which takes care of the employee upon his retirement and do something about it at once.

From another angle, it is very easy for us to look at the attitude of employers who disregard public benefits. There are now two excuses used by employers to object the central provident fund. One of them is that there is a 5 per cent contribution every month and that will lead to an increase in production costs and a lowering of competitiveness. Second, it is said that the contribution system may lead to a difficulty in cash flow and that the huge provident fund will also affect our financial market.

I think I should clarify these two points.

Firstly, in the production process, wages take up 20 to 40 per cent of the total cost and if the employers are to contribute 5 per cent to the fund, that will only, add to the cost of production by 1 to 2 per cent. Compare this with the annual salary adjustments, the inflation rate, and the miscellaneous expenditures, you will see that the rate is very low indeed. So, it would not be difficult for the employers to forecast and to pay for such expenditure. The employers cannot therefore use the increase in production cost as an excuse otherwise it will mean that organisations which have their own private provident funds are at a disadvantage as far as competition in the market is concerned.

According to one government official, labour welfare has been increasing in Hong Kong for the past 20 years with no detrimental effect to our economic development and social instability. Although some employers believe that costs will increase with the setting up of the fund, however, from the labour relations point of view, the invisible gains by setting up this fund far exceed the visible losses incurred. For example, the fund will improve labour relations, encourage the employees to work harder and raise the quality of the products. Consequently, the profit of the employers will increase.

An economist has pointed out that if we have the CPF, then every year around $5 billion will be contributed to the fund. If we look at our total financial and stocks and shares market, this amount is only 1 per cent of the total turnover of the market, so how can it have a great impact on the financial market?

Secondly, we have got an Exchange Fund in Hong Kong and that at least is a fund of $30 billion. However, it has no impact on our foreign exchange market so why worry about just a mere $5 billion? As to the worry on the investment returns for this huge fund, I think that is really unfounded. The central provident fund will be run by a number of government recognised private organisations and they have to distribute the investment and get the best returns. They will also have to be answerable to the fund committee. So I would say that the risk is really kept to a minimal level. From this, it is evident that those employers who are vehemently against the setting up of a central provident fund, only care about their short-term interests and even though they do not have any actual statistics to support what they say, they are exaggerating the disadvantages that will be brought about by the setting up of a central provident fund. Actually if those employers consider the matter carefully, they should understand the future benefits to be reaped from such a central provident fund, and they must also realise that there will be immeasurable benefits as far as the social and the political contribution go. Unless all these employers have been planning to leave Hong Kong by 1997 and they are drawing up their own timetables, othewise they should certainly not turn a blind eye to the retirement benefits of their employees.

As to the question of setting up a voluntary private provident fund, I do not think this is realistic enough. These funds increase at the rate of 50 per month. It will take at least 300 years before we can have a comprehensive fund scheme for all employees.

Secondly, if we encourage organisations to set up their own private provident funds, we will be overlooking the question of transferability. It is only when we have a compulsory central provident scheme that we can ensure such transferability. We know that provident funds are to cater for the retirees and if an employee has to change employment, and yet he cannot transfer his accumulated contributions, his interests, and his years of employment into the new organisation, that will defeat the whole purpose of setting up the cumulative fund.

As to the question of setting up an ad hoc group or a special commission to look into the question of the retirees and social security, I really have my reservations. Unless this particular group can really look into the details of implementing a central provident fund, I will not agree to it. We have previous examples. In the past 20 years the Government has set up two working groups to look into this particular possibility and yet the answer is no. We should not drag our feet any longer. We are looking at a huge system. It will take at least five to 10 years for the system to be created, implemented, and be found to be effective, and if we are to drag our feet then after a number of years, the Government will say 'sorry, no, because of political reasons'.

Sir, I understand that the central provident fund will have great impact on our future economic, political, and social systems. I agree that we should consider this matter very carefully. However, we should not become ostriches. We must look at the problem squarely and fairly and we must not only look after the benefits of the employers. I feel that the Government today should be bold and work on the general consensus that we have arrived at and decided on the setting up of the central provident fund otherwise we will be shedding our responsibility for the next generation. This will be entirely unfair to future taxpayers, members of the general public, the future government, and also entrepreneurs. They in future will have to take up this very severe financial burden and social problem and all this will have been the result of a shortsighted and irresponsible government who are in force today.

Sir, I apologise to you and Members of this Council for this rather long speech. I have taken up much of your time. However, because this theme really has to do with public interest, I have to analyse it in detail.

4.35 pm

HIS EXCELLENCY THE PRESIDENT: Members may wish to take a break at this point.

5.00 pm

HIS EXCELLENCY THE PRESIDENT: Council will resume.

DR. LAM (in Cantonese): Sir, when you sworn in as the Governor of Hong Kong, you said that all members of our community should share the fruits of our success. You also said that we should take note of the needs and aspirations of members of the public, continue to improve the social welfare services in Hong Kong, and look after the elderly and people who could not take care of themselves. If we can set up a central provident fund, it will go a long way to honouring the commitments you have mentioned. At a Legislative Council sitting in 1974, Sir S.Y. CHUNG requested the Government to carefully consider the feasibility of setting up a CPF. The Government reply at that time was that the Social Welfare Advisory Committee would take note of and follow up on this issue. Thirteen years later the Social Welfare Advisory Committee finally expressed support for the legislation and implementation of a compulsory provident fund scheme to be monitored by the Government. Thirteen years is not a short period. On this issue the Social Welfare Advisory Committee has come to a decision after careful and detailed study.

To save time, I will do my best not to repeat the pros and cons for the setting up of the CPF that have been mentioned on by my colleagues. After Legislative Councillors have expressed their views today, the Government should come to a decision as soon as possible and to inform members of the public clearly the rationale behind the decision. The Secretary for Health and Welfare on 30 April 1987 submitted a paper to the Legislative Council Preparatory Group on CPF. The way information is provided or expressed in the paper makes me believe that the Government is using stalling tactics in the setting up of the CPF. Now, some figures in absolute terms have gone up but they are expressed in percentage terms in the paper, thus showing a down-turn. For example: (1) The figure for elderly people above the age of 60 who lived alone and who had to rely on public assistance in 1976 was 25 769. But in 1986, it was 32 527. However, the percentage expressed in the paper was 57.1 per cent in 1976 and 45.9 per cent in 1986. (2) Similarly, for elderly people above the age of 70 who received public assistance, the figure was 18 810 in 1976. It was increased to 31 736 in 1986. But the figures given in the paper were 13.2 per cent in 1976 and 12.8 per cent in 1986.

During your inauguration ceremony, you said that the Government must take quick and responsive action to all sorts of social needs to indicate that the Government has the fortitude and determination to solve the problems. CPF is an internal problem for Hong Kong and the setting up of a CPF has popular support. It has nothing to do with the convergence with the Basic Law and, most important of all, there is a real need for the CPF in Hong Kong. On the whole, the CPF does more good than harm.

Sir, all citizens in Hong Kong are playing close attention to how you are going to deal with the issue of CPF. If you make a correct decision, you will have their confidence and support and it will also lead to co-operation between government officials and members of the public in future.

Sir, I support the setting up of a compulsory provident fund scheme to be organised and monitored by the Government. I suggest that we can look at the following procedures: First, the first phrase, that is, during the latter half of 1987. A policy committee should be set up to study all the details and mode of operation of the CPF scheme and to finalise the details of the scheme. For example, the compulsory nature, uniformity including transferability, stability, consistency and protectiveness of the scheme as well as participation from Government, employers and employees. Second, the second phrase, that is, in 1988. After consulting relevant bodies, the policy committee should submit the views to the Executive Council for decision. Third, the third stage, that is, in 1989 when all legislative procedures were completed and we could set up or implement the CPF.

Sir, procrastination is not the way to solve a problem. It will only shake the public's confidence in the Government. If however, bearing in mind that we are in the same boat, we pull together and make concessions to one another, then no problems, however controversial, cannot be solved.

MRS. TAM: Sir, I guess Mr. Martin LEE is still working very hard on his speech, so I can have the chance to speak first.

Sir, the question as to whether central provident fund should be set up in Hong Kong has far-reaching and important implications. Before speaking on this, I shall address a fundamental question; why should we debate on the central provident fund scheme and what social problems do we hope to resolve by such a scheme?

Some people may think that the debate on the central provident fund is mainly directed to those old and retired workers who have economic difficulties, but I have a different view. In the absence of a sound retirement system in

Hong Kong, I think a lot of retired workers, even for those who have the care of their relatives, face many problems arising from the lack of economic independence. Also, in the absence of any labour legislation to safeguard the workers' retired life, most workers in Hong Kong do not have any handsome fund when they retire. Now, of course, the plight of those who have no one to turn to are most deplorable. They are unable to maintain a living upon their retirement and when they retire, have to rely on public assistance to make ends meet or even to labour for a living in their old age.

According to government statistics, there is one out of every five elderly people aged sixty or above who is either single or lives with his or her own aid without any family care. Sixty-four per cent of the public assistance recipients are old people, but we must not however overlook those retired old people who even have the assistance from their families. Without economic independence and deprived of the choice of their preferred way of life in retirement, they may encounter various problems too. Examples are relationship with their families, their psychological states and even their will of living, and so on. In recent years, the problem of elderly abuse has become serious, as evidenced in the rising trend of suicides among the elderly. Therefore, an inadequate retirement system for the elderly workers brings not only problems of material deprivation but also spiritual suffering as well. So what is needed is not only to satisfy their material wants but to look for a way to entitle them to a basic standard of living in a respectable and dignified way.

Sir, hence I cannot agree with the view that the problems of old retired employees can simply be solved by strengthening the present public assistance scheme and increasing the various assistances. This suggestion only solves part of the problem, let alone bringing the additional burden of a huge expenditure. It provides financial assistance to the needy elderly but the way the assistance is offered, however, would hurt them psychologically. After all, Hong Kong social welfare is aimed at those who cannot help themselves even in the long-term or short-term basis. Public assistance itself carries a strong stigma, to cause feelings of inferiority and uselessness amongst the recipients.

It is my opinion therefore, that a more positive solution is to pin-point on the problem of an inadequate retirement system and establish a provident fund scheme. An employee can, under the principle of 'work more and earn more', save up part of their earnings when they are young and secure a pension upon retirement at their old age. Irrespective of whether they will be taken care of by their relatives, retired employees are able to maintain a basic living standard and have more freedom in choosing their preferred retired life without losing their self-respect or self-confidence. The implementation of such a provident fund scheme, however, cannot be achieved by merely encouraging the employer to set up their own scheme on a voluntary basis, otherwise if we take the current rate in the last few years of 50 new schemes being set up each month, it will take a very long time for all the 200 000 establishments, in particular those small and medium-sized enterprises, to accomplish their own schemes.

So I think the most appropriate approach is to require all employers to establish a provident fund scheme by introducing legislation. Such provident fund schemes should have the following five characteristics: Firstly, all private enterprises in Hong Kong should be required by legislation to establish provident funds with contributions from both the employers and employees. Secondly, to facilitate the implementation, a gradual approach should be adopted in stages, starting with the large enterprises and followed by medium- and small-sized enterprises. Thirdly, a standard requirement for all provident fund schemes should be laid down by legislation, for example, contribution from the employers and employees must not be lower than a certain level. Fourthly, in the event of termination of employment, the employee's previous contribution should be transferable to his new fund. Lastly, I think there is no need for a central administration of the various provident funds. Individual enterprises can engage insurance companies or financial firms to manage their own funds.

Sir, it is my belief that we should actively consider how to establish a provident fund in Hong Kong. This would help solve the problem of social security for our retired workers; of the pressure of an ageing population and of the maintenance of social stability for the next 10 years to come. Sir I am in full support of the proposal to set up a commission by the Government to study the establishment of a compulsory fund.

MR. LEE YU-TAI (in Cantonese): Sir, to prepare for the rainy days and to raise children in the hope of receiving their care and attention is the theme of the Chinese agricultural society. In an agricultural society, this is feasible. However, in Hong Kong which is an active and prosperous society, adult children are earning income which can hardly support their parents. Let us take the mid-point monthly salary of a worker for an example: they are having $2,500 and they can hardly support their parents. Storing up crops in order to avoid starvation means saving up money. But money saved for old age is hardly adequate because of the high inflationary rate. And because of practical needs, most families have only two children. The ageing of the population and family planning would therefore lead to three generations in a family, that is, the grandparents who have retired, the younger children who are studying, and the second generation who has to work and support the family. Thus, only one third of our population is engaged in production and two thirds are under care and attention. In most urban societies, this is an inevitable phenomenon. In Hong Kong, the life expectancy of a male would be 77.3 years of age and for women, it is 81.6. If one retires at 60, it would mean that the post-retirement life would be around 20 years. Social welfare and personal savings can hardly meet the needs of these old people and I think that a provident fund is the only way out.

All responsible governments should have foreward and advanced planning. The Hong Kong Government, if it is not a lame-duck government, should set up a comprehensive provident fund system. As to the naming of the fund, I suppose it should be called the statutory provident fund instead of the central provident fund. Because of the sovereignty issue, people in Hong Kong do not have confidence in the Government managing the provident fund. The word 'central' is misleading as people may think that it is the Government who administers the fund. So we should change the name to 'statutory.' 'Statutory' means to say that the Legislative Council will enact legislation for the formation of an independent organisation to monitor and manage the fund. The number of government representatives in this organisation should be so small as not to cast too much influence.

Not too long ago the Methodist Church Epworth Village Community Centre sent representatives to the OMELCO office with some of their survey findings. The respondents of the survey are mostly young people between the ages of 20 to 39. They are mostly workers. Ninety per cent of them think that Hong Kong needs a central provident fund; three fourths are willing to pay the monthly contribution; as to the area of protection, they feel they should cover retirement, disability and medical benefits. I fully accept the findings and proposals of this survey. As a matter of fact, a couple of DB members and I have completed a survey and the findings are pretty much the same as the one mentioned above.

Some members of the industrial and commercial sector, of course, oppose the central provident fund system. They feel that it will increase costs and reduce the competitive power of Hong Kong products and they say that it will discourage investments. Hong Kong has a steady political climate and a low tax rate, so people will not stop investing in Hong Kong because of the provident fund. And the provident fund has much to do with income. Apparently the contributions are made by both parties and in the long run, may affect the demand and supply of labour. Say, for instance, a factory is carrying out full mechanisation and automation and the demand for manpower is greatly reduced. The bargaining power of workers will thus be reduced and in the yearly review of salary, the employer will defer the increase or will reduce the increase level. So the part played by the employer in contributing to the provident fund will be shifted to the employees. Thus, everything depends on automation and mechanisation and the provision of labour and the labour market.

Now, we have the long-service payment schemes, but an employee cannot get his payment unless his employment is terminated. So even though workers continue to work, they are unwilling to resign on their own initiative and the workforce is becoming older and older. This will be detrimental to the rate of production. Lately, I have received a complaint from a person working in a famous Japanese department store. A staff member is having serious illness. The employer allows him to have no pay sick leave but is not willing to terminate his service. So the employer is evading the long-service payment scheme. I would suggest therefore, that before we have the central provident fund, we should improve the long-service payment scheme to enable people who lose the power to work to receive such payment.

Before our adjournment debate, the Government has formed two working groups to look into other options. I think this is not proper. It will give people the impression that Government is trying to influence this debate. I suggest the abolition of the two working groups and we should consider having a Legislative Council Select Committee to look into the setting up of a provident fund. This is because a Select Committee is open to the public and we can consult members of the public and invite workers and employers to come and give their views. The Select Committee will be fairer and more objective.

In Hong Kong, we have a lot of small-and medium-sized enterprises. And if we have a statutory provident fund system, we should give the small-and medium-sized enterprises some sort of grace period. For example, for those who employ less than 100 persons, they are free to participate in the first three years of the implementation of the provident fund but after the grace period, they are obliged to join.

Sir, my speech comes to an end now and I hope that my views will be directly answered by the concerned authority. I think that it is the Government's responsibility to give a reply.

MR. LI: Sir, the question of whether or not Hong Kong's future should include a central provident fund is one which demands very careful consideration because of the far-reaching effects of such a scheme.

The question arises from the perennial problem facing Hong Kong, the problem of people. This problem is now being compounded by the increasingly high proportion of old and retired in our population. Official estimates are that by 1991, almost 518 000 people will be aged 65 or over, equivalent to 16.2 per cent of our workforce. By the year 2001, this figure will have risen to 674 000 or 19.1 per cent of the workforce. On this basis, Sir, by the next century, Hong Kong will not be able to rely solely on the traditional family support for the elderly. There is a genuine need for us now to consider measures to provide the elderly with greater financial security. However, a central provident fund is but one of the options. One of the factors that the Government has to consider in evaluating the need for a compulsory scheme is whether or not voluntary savings are sufficient to meet the needs of our senior citizens.

At 25 per cent, Hong Kong's saving rate, is among the highest in the world. Our high voluntary savings rebut the argument that most of our workers are not capable of saving on their own. The main task of the Government, in my view, is to take positive measures to encourage this already high level of voluntary saving. These measures could include tax concessions for employee contributions to private schemes and improvements to the existing regulations for private schemes.

An increase in the transferability of pension benefits would encourage workers to contribute to private schemes. However, it may also result in an undesirable increase in labour mobility. This in turn would discourage employers from committing resources to labour training and development, which is essential to our industrial well being. Therefore, it may be necessary to consider certain restrictions on the transferability of pension benefits so as to encourage employers to participate in and maintain a reasonable stability of the workforce. A period of three to five years would be considered an appropriate minimum period of service required before pension benefits could be transferable.

Greater freedom to utilise funds according to their own needs would make provident funds more attractive to contributors, for example, I believe that an employee has the option to use his or her contributions as collateral security for a housing loan to substantially increase the popularity of provident funds. The popularity of provident funds is mainly among the larger companies in Hong Kong. However, over half a million workers or 41 per cent of Hong Kong's manufacturing and trading work-force are employed by small firms with less than 20 staff members each. Most are not covered by any type of provident scheme. To encourage these employers to set up such schemes, the Government may have to broaden eligibility for the existing long-term service payment schemes, for instance, by shortening the minimum period of service for employees younger than 41 years old from 10 years to five years. While a provident fund is aimed at providing participants with financial protection when they reach the age of retirement. The long-service payment scheme is designed to protect the older worker from unfair dismissal. However, despite the different objectives of these schemes, both required employers to make financial provisions, but the employer's liability on the long-service payment scheme can be offset by their contributions to approved private provident funds. Employers would have greater incentive to establish private funds, if the present long-service payment scheme is broadened.

In summary, Sir, I believe that the concept of a central provident fund operated by the Government is completely contrary to Hong Kong's basic economic philosophy. However, the Government should take steps along the lines I have already indicated to encourage the establishment of more private sector provident schemes to provide financial security for the half a million or more workers, who at present have no guarantee of security for their old age.

MR. NGAI (in Cantonese): Sir, whether Hong Kong should set up a central provident fund or whether we should have a compulsory provident fund scheme is not just a question of the protection of labour or social security. It is a question which affects the overall development and interests of the Hong Kong economy. If we should treat it merely as a means to solve the problem of the elderly, or as a means to improve social welfare, or to increase labour protection, this will confuse the issue and this is very dangerous.

Looking back upon the history of industrial development of Hong Kong, we know that entrepreneurship has been the driving force behind our industrial development. The capital and know-how required by entrepreneurs were brought about by the immigrants in the early days. Later on, many people who originally were employees started their own businesses and their capital always came from their own savings. As to the know-how and experience, well, these were accumulated over the years. The reason why I emphasise the entrepreneurial spirit of these grass-root entrepreneurs is that more than 90 per cent of our industries in Hong Kong are medium- to small-sized and many of the proprietors started out as employees.

It seems that in recent years, these grass-root entrepreneurs are declining in numbers and the enterprising spirit seems to have been weakened. There are many reasons for these changes; for example, the investment market is getting more and more complex and diversified; production is moving towards the direction of division of labour and specialisation. This will indirectly affect the capital and know-how required by entrepreneurs. However, I think more importantly, this is due to the fact that the Government in recent years has come up with stringent labour protection legislations regarding severance pay, paid holidays, sick leave, maternity leave, long-term service payments and also compulsory insurance, employee insurance and compensation. The proliferation of these legislations undoubtedly increases the operating costs of commerce and industry and has created obstacles for entrepreneurs of small- to medium- sized businesses. This is most detrimental to the flexibility of our industries and to the employment opportunities in Hong Kong. If we were to set up a CPF or any form of compulsory provident fund scheme, it is not difficult to imagine that the survival of our small- to medium-sized industry will be gravely affected and so will be the incentive of small entrepreneurs. This will definitely have far-reaching repercussions on our future economic growth.

Sir, a central provident fund is a form of compulsory saving. It would deprive the salaried class of the freedom of choosing to participate and of the right to use their own earnings freely. Some employees work and save hard when they are young because they would like to save up a certain sum of money so that after they have accumulated sufficient working experience, they can start their own businesses. If the Government were to set up a CPF, a significant proportion of the employees' income will go into this CPF and, as a result, their personal savings will drop. Their wish to start their own businesses cannot be fulfilled so easily. The supporters of a CPF have presumed that the working class will be employed for life and will not have the ambition to become entrepreneurs. They have also overlooked the fact that entrepreneurship has been the driving force behind our economic development.

The CPF, once started, will also adversely affect our capital and consumer markets. Right now in Hong Kong, we have 2.6 million people in the labour market. According to government statistics for 1985, the total direct earnings of employees amount to $100 billion. Assuming that employers and employees will contribute 10 per cent of this amount to the fund and assuming that the majority of employees will participate, the annual contribution involved will reach $10 billion. If employers and employees should each share half of the contribution, if will mean that in the first year of the implementation of the CPF, private consumption will drop by $5 billion. This will adversely affect our local consumer market. This will also be a very severe blow to our services and retail sectors. Also, employers will have to commit $5 billion in contribution to the fund which could otherwise be used for investment or cash flow purposes. Furthermore, the contributions will accumulate over the years, and they will not flow back to our market until years later. Given that we have a very small economy which is highly reliant on exports, I wonder whether we can stand this considerably long-term impact. The Government should really consider the issue very carefully.

Sir, industrialists admit that the ageing population is a serious problem we have to face and that there are people in our community who badly need help. However, at present, and in the foreseeable future, how serious are these problems? Do the existing legislations provide for sufficient social security and labour protection? We are concerned about all these questions.

According to a survey made by the Working Group on Social Security, the problem of the elderly is not that serious in Hong Kong. From 1976 to 1986, the growth in the number of elderly has not necessarily resulted in an increased demand for public assistance. Many people over the age of 60 are still working and more than 80 per cent of those beyond the age of 60 live with their families. I fully agree with the findings of this survey because the Chinese family tradition has not declined as society develops. The survey also points out that those over the age of 75 rely very much on public assistance. The findings of the survey are most valuable and this should form the basis of Government's future policy on welfare for the elderly. Since it also shows that those over the age of 75 do need government assistance, the Government should employ more resources in this direction and this seems a more realistic approach.

Sir, I do not intend to go into figures here. Some colleagues have referred to the question of production costs, saying that the introduction of a CPF only increases our production costs by one or two per cent. I would like to point out that labour costs for industries vary with the size of the factory, the degree of automation, the size of output, and so on. If we deliberately ignore these facts, we are deliberately distorting the picture just to curry favour with the public. Furthermore, it has been mentioned that some private enterprises which have their own private provident fund systems do not seem to have lost their competitiveness. Colleagues who have spoken on this issue have not told us the nature of these enterprises which have their own private provident funds. If we do not disclose all these facts, then we are again distorting the picture to curry favour with the public.

Sir, the problem of the elderly belongs to the area of social welfare. It should not be undertaken directly or indirectly by employers alone. Furthermore, we should not think that once we have the CPF, we have found a proper solution. To maintain the prosperity of Hong Kong, everybody should be responsible. If we have to sacrifice the overall economic interest in exchange for the benefit of a small minority, it will be most unwise and unworthy.

Sir, labour protection legislations in Hong Kong are not lagging behind those of the advanced industrialised countries. In fact, we fare much better than some other countries. I wish to point out that many employers have already set up their own provident fund systems or other forms of retirement schemes. This indicates that employers are now having a better concept of provident funds. Moreover, a private provident fund can be more easily and flexibly managed. A CPF, on the other hand, will pose many risks; for example, safeguards against currency depreciation, protection against currency fluctuation, and guarantee for investments. I propose that the Government should by means of tax incentives, encourage the private sector to set up provident fund schemes rather than make laws for the formation of a CPF because this will interfere with the free allocation of resources in our society.

Sir, my conclusions are that the prosperity and stability of Hong Kong are founded on the basis of a broadly predictable political and economic system which is not liable to abrupt changes so that entrepreneurs and the salaried class know how much they earn for their effort. The central provident fund suggestion has obviously overlooked this important point basis and the serious consequences it will bring to our overall economy.

Sir, I think the proposal should be shelved.

MR. PANG (in Cantonese): Sir, Members of this Council are most concerned as to whether we should set up a CPF in Hong Kong. Therefore, we have this adjournment debate. I personally hope that through this afternoon's debate, we can contribute something to the protection of the elderly and will arrive at a consensus towards the formation of a CPF.

Sir, as early as 20 years ago, back in 1967, an inter-departmental joint working group which looked into the social security system in Hong Kong already pointed out that, 'the number of elderly people will increase gradually in the next 20 years. Protection for the elderly will become a very serious social problem.'

In 1977, the Government published another Green Paper on the Development of Social Security and in one of the chapters of that Green Paper, it was suggested that we should have a semi-voluntary and contributory employee sickness and injury insurance scheme. It also suggested that if employees were willing to participate, then the employers would also need to contribute an equivalent sum. Both employers and employees would contribute 2 per cent of the salaries of the employees but the maximum contribution should not exceed $40. However, this suggestion was not legally binding, it was entirely voluntary. As a result, at the Labour Advisory Committee Meeting on 16 March 1978, the employer representatives objected to the proposal and so did the employee representatives. Hence, no conclusion was reached and the plan was shelved. Sir, at that particular meeting, the employee representatives pointed out, (1) that the contributions should be compulsory, so that those employees who participate would not be discriminated or dismissed by employers unreasonably; and (2) that the contributions should be increased to 5 per cent in order that the employees would get greater benefits.

Sir, the trade unions and labour organisations of Hong Kong and all those who are concerned about the community, have all along urged the Government to face the fact that a large number of our working population is ageing. Once they retire, they do not have any guarantee on the means of livelihood and we should therefore find a solution to this problem.

Sir, what is most disappointing is that the Government has not accepted the recommendations of the 1967 working party's report on social security. It has also rejected the recommendations given by the employee representatives in the 1977 Green Paper on Social Security. Sir, members of the community, including the employers, are aware that the care of the elderly after their retirement is a very urgent problem. In this regard, we have already arrived at a consensus, including members of this ad hoc group.

Sir, when we consider whether we should go ahead with the CPF, the Government has been using stalling tactics and paying lip-service to the demand. It has also set up two working groups to look into the following areas: (1) to consider whether we could improve our existing social security system with regard to the public assistance and old age allowance schemes; and (2) to look into ways to encourage the private sector to set up their own employee retirement scheme. All these moves obviously show that the Government is trying to prevent the formation of a central provident fund. It seems that the Government is trying to evade its responsibility.

Sir, the Government's present attitude towards the CPF confirms the foresight and the warning given 20 years ago in that report I referred to and I quote: 'If only by then do we regret our lack of foresight a few years earlier and have to suffer the consequences, it will be too late.'

Sir, I earnestly hope that the Government can really face the fact and adopt a fair and positive attitude towards the formation of a central provident fund and set up a special ad hoc group to carry out all the necessary preparatory work.

Finally, I would like to conclude by quoting another paragraph in the 1967 report: 'Therefore, we feel that this is the time to appeal to the members of the public to help set up their own old age protection scheme and when necessary, this should be done on a compulsory basis. Some people may object on the basis that it violates the principle of personal freedom. However, these people are often those who criticise the Government for lacking foresight when the problem of the elderly cannot be solved.'

Sir, many of my colleagues have said that most of our industries are small to medium in scale. However many of the large enterprises started out as smalland medium-sized enterprises. Therefore, if there were no small-to medium-sized enterprises, there would be no large enterprises. Workers spend their life time working for the industries of Hong Kong but are left to fend for themselves after retirement. This is not only a sad thing for the workers but a disgrace for the whole society.

Sir, I support the motion.

MR. POON CHI-FAI (in Cantonese): Sir, the society in Hong Kong is developing and family traditions are also changing. The Chinese concept of raising a son for the sakes of one's old age and the view that children must take care of the elderly parents have weakened as traditions. The fact that our population is ageing has increased our concern for social benefits for the elderly upon their retirement and of course, the central provident fund as one of the means to take care of the elderly has become a hot topic amongst the general public. The spirit, the principle and the concept of a central provident fund is worth our support.

However, the plan of having such a fund will have very severe impacts on our community. Not only will it directly affect each and every one of the 2.6 million employees in Hong Kong and their family members, it will also affect the future development of our economy. So the Government should carefully plan and consider the interests of all parties before a decision is made as to whether we should have a central provident fund. We do not want a plan which aims at improving the benefits of the community to turn into a suggestion which damages our society. Actually, we still have a lot of controversy concerning the setting up of a central provident fund and a lot of problems still await our detailed consideration and analysis. Say for instance, is a central provident fund scheme the best guarantee for a good living after retirement. Are there any other possible alternatives? Second, will Government compel small-sized industries or companies with a low profit margin to participate in the CPF and will assistance be given to them? Third, have we done any assessment on the impact of the central provident fund on the cost and competitiveness of our products? Fourth, what is the degree of protection afforded to low income earners by the central provident fund and will it affect the ability of such employees to try and improve their lot before they retire. Fifth, will it lead to a lowering of the employees' salaries by the employers? The latter may purposely shift the burden of contributing to the fund onto the employees and the employees will end up losing in the whole exercise. Sixth, can the Government ensure that investments of the central provident fund will be 100 per cent risk-free and will certainly bring a profit? If losses should be incurred or if the rate of return is lower than the rate of inflation, what would the Government do? Finally, will the central provident fund deprive the employees of the opportunity to invest in their own businesses and thus have their own enterprises?

Sir, all these are just some of the problems which may arise from the concept of a central provident fund. The fund will have great impact on our community and before all these questions are satisfactorily resolved, I would suggest that the Government should not come to a hasty conclusion or a decision. However, every speed must be taken to set up a special commission to carry out in-depth analysis and study into the pros and cons of such a scheme and to work out the solutions. We must take care of the interests of all parties. Once a conclusion is arrived at, we can then decide on whether we should implement the central provident fund scheme.

Finally, Sir, I would like to emphasise one point. Regardless of whether we have the central provident fund scheme, the Government, on a long-term basis, should pay special attention to employees who work in small-and medium-sized companies or factories. They must be taken care of after their retirement and there must be social protection for them. They represent the majority of the labour force working in the private sector and their income and benefits normally compare less favourably with those working in large enterprises. I also hope that with suitable concern and care from the Government, these small- and medium-sized enterprises would be able to survive and provide more opportunities for employment for our employees besides improving the benefits they are providing for them.

MR. SZETO (in Cantonese): Sir, a scientist once said 'The locus of development of all matters in the universe is in the shape of a parabola. Even the rays of the sun are not absolute straight lines'. For any matter to develop, there must be a starting point, a rise, a vertex, a fall and a terminal point. In short, that is the span of life. However, we see that mankind is advancing all the time. Why is this so? This is because every generation takes the vertex of the parabola of the last generation as a starting point, and the starting point joins another vertex, thus the history of mankind becomes a straight line continually forging ahead.

We have to thank our ancestors. Without them, human beings would have to start from scratch everywhere and perhaps we might still be in the animal stage. Then, how can we not ensure that our living ancestors, that is, the retirees, are not given protection in their old age.

To provide protection to the retirees in the last years of life is not only a moral responsibility. It is also one step for us to help bring up a better younger generation. If the society does not have a system to take care of the older generation, then the responsibility will certainly fall onto the younger generation in the family who inevitably will have a double burden. They would have to take care of their older generation and their own children. This will inevitably mean less attention for their children. If the society can build up a system to share the burden of looking after the elder generation, then the younger generation can better take care of their children and help to provide a better younger generation for the community. Only by so doing can one generation excel the next generation and be happier than the next generation and make progress.

We all have parents. It is an undisputable fact that we should provide our retirees a happy old age. But what sort of system should we have? I think the setting up of a central provident fund is the solution. At present, we have two confronting parties regarding the setting up of this fund. A categorical refusal or an immediate implementation will only bring the two fronts further apart. Actually, I would not say that there is no concensus between these two parties. It is just that they lack communication. If we can fully exercise the spirit of compromise and sit down and discuss everything, I believe we can minimise the differences and work towards the setting up of a system which will provide sufficient protection for the retirees in the last years of life.

For the sake of communication and for the spirit of compromise, we should study everything in detail and I support the idea of the setting up a commission. I would emphasise that the commission is to look into how a central provident fund is to be set up step by step, and not how to avoid setting up a central provident fund or how to set up a private provident fund. Membership of this particular commission should include representatives from the Government, the employers, the employees, social workers, financial, insurance and legal field. If even such a request is refused, what else can I say? I can only say that our community, our Government and our employers are very ungrateful. They cannot see beyond tomorrow.

I support the setting up of a central provident fund and I think that we should set up a commission as a first step.

MR. MARTIN LEE: Sir, one advantage of speaking towards the end is that I have the benefit of hearing all the speakers before me when I deliver my hastily prepared speech.

And I propose to take the fullest advantage by respectfully adopting all the reasons given by my colleagues who have spoken in favour of the setting up of the central provident fund, whilst equally respectfully dissociating myself from all my other colleagues who have spoken against it.

Sir, while I was listening to the very eloquent speeches by my hon. Friends Mr. SOHMEN and Mr. Stephen CHEONG, I was somewhat saddened to hear the arguments advanced by such intelligent gentlemen at this date and age in the very advanced society of Hong Kong.

For shorn of their rhetoric, their arguments can be reduced as follows:

'Because our workers are so diligent, they should not be helped at their old age. Let them save for themselves. Let them know that if they fail to save enough, they may starve to death. For once they realise this, they will work harder, and will thus make our economy grow even stronger. And this is in keeping with the Hong Kong success story.'

Sir, but for the fact that Mr. SOHMEN has assured us that he is yet to catch a plane, I would have thought that he had already taken off in a time shuttle which had taken him back to the era of Charles DICKENS. Indeed Mr. SOHMEN even went so far as to say that to introduce a central provident fund may spell the beginning of the end to Hong Kong's success. But how can that be right? We know only too well that not everyone is able to save enough at one's retirement—for life is full of uncertainties. And if we accept that our own success is built on the diligence of our supporting staff, then surely, the way to show our gratitude is to help them to save up, and at the same time to make a small contribution ourselves, so as to enable them to look after themselves when they grow old, with dignity and pride, which after all may be the only thing our old folks will have in the ever darkening evening of their lives.

Sir, I do not wish to repeat the points in favour of the setting up of the central provident fund which have been so succintly put by our hon. Colleagues who spoke before me. And I shall confine myself to answering some of the main arguments which have been advanced against the setting up of such a fund both inside and outside this Chamber.

One argument that has been raised by the hon. Stephen CHEONG is that employees' contributions will increase production costs substantially and hence will reduce the competitiveness of our local products.

My answer is: first the provisions of a central provident fund will form part of the salary package of the employees, and hence employers can later adjust the salary and fringe benefits of their employees accordingly. Secondly, it is the consensus of our local economists that the impact of a central provident fund can be eventually absorbed in the present economic system and climate in Hong Kong, though in the interim period of adjustment, there will be some degree of disturbance. Moreover, if the contribution rate is small such as 5 per cent either way, the disturbance is small enough and can certainly be tolerated. Thirdly, the fact that many big organisations already have their own provident funds, and that many others are planning to introduce similar schemes, show that such provisions are beneficial to both employers and employees. Fourthly, it is the right time to set up a central provident fund when Hong Kong is enjoying satisfactory economic growth. In other words, the time is ripe.

Another argument, raised by the hon. Stephen CHEONG and the hon. NGAI Shiu-kit, is that the disturbance caused by the setting up of a central provident fund will adversely affect many small businesses earning only marginal profits. Indeed, according to the hon. Stephen CHEONG, more than 80 per cent of business enterprises in Hong Kong employ less than 20 employees each; and I have the clear distinction of falling within this category of employers.

My response is: first, a central provident fund can and will no doubt be introduced gradually, according to a published time table. The net should first cover the relatively big organisations, and gradually say, in three or four years' time, it should be extended to cover all enterprises. This would enable the smaller businesses to make the necessary preparations for adjustment. Secondly, the smaller businesses in any event should have certain reserves to meet their liability for long service pay and severance pay. Central provident fund benefits can thus be applied to set off these statutory obligations of the employers. thereby reducing the degree of disturbance. Thirdly, employers will not be required to contribute retrospectively.

Another argument is that the institutionalised investment of a huge sum of money accumulated in such a fund (say about $10 billion in 10 years' time) will cause disturbance to the monetary market.

My response is: first, a centralised management, as opposed to a centralised investment, of a central provident fund is most cost-effective. It will relieve the burden of small-sized firms of the burden of taking care of their employees' accounts and will also avoid grievances in case the rates of return are substantially different due to different managements. It will also avoid substantial or total loss to a particular group due to mis-management. A good recent example of mismanagement is the final average salary scheme managed by the Tung Wah Group of Hospitals. Secondly, the centralised management of a central provident fund is likely to appoint various firms of good international or local standing to spread out the investments: for example, 50 per cent in foreign shares, currencies and bonds; 25 per cent in local shares, bonds and properties; another 25 per cent in lendings to reliable borrowers at market rates. Thirdly, the rates of return can therefore be made uniform to all participants of the central provident fund, therefore avoiding unnecessary grievances. Fourthly, in about 10 to 15 years' time when the size of the central provident fund has become steady (that is the draw-outs are approximately equal to contributions), the Government can allow beneficiaries to such a scheme to draw out a certain percentage of their entitlement for certain long term investments, such as the purchasing of one's own home.

Another argument is that the central provident fund scheme is contrary to the government policy of positive non-intervention and carries with it a socialist stigma.

My answer is, first, it only requires a minimal degree of government intervention to protect the long-term interests of our society. It does not interfere with the investment policy of the investors, but only requires them by legislation to alter the salary or income structure of their employees, so as to ensure that they will be able to save money for their future. It is comparatively a much smaller form of intervention than the setting up of an industrial bank or an industrial research laboratory or even a data-house. Secondly, if a central provident fund is stigmatised as socialist policies, the logical conclusion would be that there are no modern industrial and advanced capitalist countries which are not socialist.

Another argument advanced by the hon. SOHMEN and the hon. NGAI Shiu-kit is that it is unreasonable to compel all employers to join in.

My response is: first, the central provident fund scheme is a model and standard scheme containing minimal terms of requirement, and the required contributions are to be kept at the minimal, say, 5 per cent from either side.

Secondly, any firm or company having or about to have its own retirement scheme with terms more favourable to the employees than the central provident fund scheme can be exempted from the scheme. Thirdly, employees who are earning less than, say, $1,500.00, can also be exempted from this scheme. Fourthly, since the terms are standardised, the setting up of a central provident fund would preserve, and even facilitate, labour mobility which is certainly beneficial to the development of local industries.

Another argument is that whilst mobility in the unskilled labour force can be beneficial, the skilled labour or trained or professional or specialised labour force will require a lot of investment from the employers. Hence, the argument goes, if such labour force is to become too mobile, it is not beneficial to the employers.

My answer is that before these employers train their employees or workers, they will no doubt be well-advised to require them to enter into a fixed term contract, so that the central provident fund would not affect their mobility unless they choose to break their contracts and in such case they will have to pay damages.

Another argument is that the employees borrow money either from financial institutions or relatives or friends by pledging their future benefits in the central provident fund scheme, and are therefore able to restore their original position and consuming power, with the result of nullifying the desired effect of such a scheme.

My answer is: first, there is no such evidence that this is a common phenomenon when we examine foreign experience, that is, in countries which have social insurance or similar central provident fund schemes. Secondly, we can legislate to prohibit the unauthorised encumbrances of a participant's benefits under the central provident fund scheme by making any such incumbrance null and void and unenforceable in law.

Then there is the argument raised by my hon. Friends Dr. Ho Kam-fai and Mr. Stephen CHEONG that the introduction of such a major social policy of far reaching consequence during this very sensitive period of transition would undermine confidence, social stability and the prosperity of Hong Kong.

My answer is that if this Government were to decide now to introduce a major social policy in order to provide a basic security for the ageing population in future, it will show conclusively that ours is not a lame-duck administration, and that it has the courage of its conviction to serve the long-term interests of our people. Further, the willingness of the industrialists and other investors to help implement this policy will show that they are not only concerned with their own immediate and short term interest, but also the long-term future interests of the Hong Kong people; and that they are prepared to make short term adjustment in order to ensure that a heavy and otherwise unbearable burden will not fall on our future government. This is certainly a responsible attitude. And how can the adoption of such a responsible policy by our government and such a responsible attitude by investors undermine the confidence of the people of Hong Kong? Indeed, if Hong Kong is a place where we plan to stay beyond 1997, there is no conceivable reason why we should not support the Hong Kong government and the people in making such long term planning at a relatively small expense to ourselves (compared with social insurance and pensions scheme) unless we want to reap as much profit as possible before we pack up and go in a few years' time.

To conclude, Sir, this is the time when our Government and industrialists and other employers can demonstrate by conduct their real commitment to the long-term future of 'the beloved community of ours' (in the words of the hon. Stephen CHEONG). Sir, I am afraid that that commitment cannot be shown by the mere setting up of a commission to look into the merits or demerits of a central provident fund, no matter how honourable its members are; for we all know that the avowed object of setting up a commission of enquiry is to inform. but more often than not, its inevitable result is to stall, and hence 'loses the name of action'.

MR. TAM (in Cantonese): Sir, you have been in Hong Kong for only just over one month but now you encounter a thorny problem. However, I know that you have a very good understanding and sympathy for the grass-roots in Hong Kong, and you also have a good understanding of the development trends of our society. Therefore, I am sure that with your wisdom, courage and social conscience, Hong Kong will be able to set up a comprehensive retirement security system which will dispel the worries of the elderly. This will certainly be a blessing to Hong Kong.

Sir, dear colleagues, have you ever witnessed the following? A 70 year old elderly woman worker had three of her fingers severed by a press but still she had to drag her tired body to work? Her son and her daughter-in-law asked her not to go to work but the elderly worker said, 'You have a heavy burden and your income is not high, so I will have to go on working until I die.' An elderly worker had difficulties moving about but he was engaged in loading and unloading work. He hobbled on to a goods vessel on a wavy sea and then worked at a hoist which was a few storeys high. Now, put yourself in the shoes of the two elderly workers. How would you feel? Imagine that you are already in your 60s or 70s and your are not able to travel to work in an air-conditioned car but have to depend on a stuffy public vehicle. How would you feel? Would you think that it is fate or some wrong-doing on your part which causes this? What kind of anguish would you have? These elderly workers have devoted their life time to the development and prosperity of Hong Kong, but Hong Kong which is labelled as a progressive and open society, is repaying these workers in such a manner. Is it possible that they have no anguish? They certainly have, so have I. They complain that they are not given retirement benefits during their old age, and I complain that our society is ill-treating them.

Do not imagine that these are only individual cases. There are many such cases in our labour force and we cannot ignore them. Even if we are not going to have in-depth studies or investigations, a look at the data will frighten us. But if we want to have data, the information given to us by the Government may not be good enough. Recently the working group headed by the Secretary for Health and Welfare, provides us with some data. However, the data are only partial data and there is no forecast into the future and there are some eroneous deductions in the analysis procedure. Therefore, the conclusion that the problem of the elderly is not severe cannot be readily agreed to by people. In fact, according to the data provided by the Census and Statistics Department, people who are 60 or above, account for 11.6 per cent of our population. It will increase to 14.1 per cent in the year 2001. Also, the dependancy ratio for the elderly population has increased from 113 to 151. From demographic graphs, we know that the problem of the elderly will be more serious by the year 2000. And from 2010 or 2015 onwards, the problem will be even worse. Some of my colleagues have already spoken on this. I will not repeat these points.

Why is it that we need a central provident fund? There are two aspects to this issue. First, the functions of a CPF and also the relative merits and demerits of CPF vis-a-vis other options. Now, let us see what problems can be solved by the establishment of a CPF. One of the problems we will encounter in future is the increase in the elderly population and many of them need care and attention. Second, the burden in the area of social security provided by Government will increase. Third, under existing legislation, the retirement life of the elderly is not protected. Fourth, only a small proportion of the employers have funds reserved for the protection of the employees after their retirement. These are existing problems. What is worrying is that some developments in our society and economy may aggravate these problems. What are these developments?

First, the slow down in economic development. After a number of years of rapid economic growth, the economy of Hong Kong may move into a periodic trough on the graph. Today, elderly people who still have working capacity can still make a living, but if we are in an economic recession, then the first to be unemployed will be the elderly.

Second, the change is the economic structure. The economic structure of Hong Kong has changed and the impact of the services industry will increase. The employees in the services industry are mostly youngsters and also because of technological advancements the elderly will be the first to lose out.

Third, the anti-saving phenomenon. According to the figures on household expenditure service conducted by the Census and Statistics Department and the Hang Seng Bank, there is a trend showing that many households are spending more than they earn. If we compare the figures for the year 1979-80 and the year 1984-85, there is a trend showing that the problem has worsened and that there has been a drop in the savings for the society as a whole. We cannot therefore rely on savings on the part of individuals to solve the problems of their retirement life.

Now if we have a slow down in the economic development, a change in economic structure and a drop in savings, and if we do not have a good retirement security system, then the problem will get worse. So the establishment of the CPF can help. Now of course, there are other options to solve the retirement problem. Why is it that we have to rely on the CPF instead of other schemes? Well, it all depends on the relative merits of the different schemes.

First, the long-service payment scheme. Under existing legislation, there is no retirement protection. Long-service payment is only a payment on termination of employment, and there are loopholes in the legislation. The Protection of Wages on Insolvency Fund only protects the wages owed to the employees by the employers on bankruptcy.

Second, the public assistance scheme. This only gives $500 to the recipient. The elderly can hardly make their ends meet.

Third, the voluntary provident funds scheme. I myself have done some calculations on the voluntary provident fund schemes and find that it will take some 300 years if the private provident funds are to cover the whole territory of Hong Kong and to benefit the whole labour force. Some people may say that I am exaggerating, but please tell me, if we only depend on the voluntary provident fund schemes, how long do we have to wait before all our workers are protected.

Fourth, the social insurance system. Now this is a contributory system. Of course such a system will provide more benefits than the CPF because the scope of protection is much wider, for example, the elderly will benefit from it and also it covers disease, injuries at work, disability, birth, unemployment, orphanage, widowhood and so on. The benefit received by the beneficiary is not directly proportional to the contribution amount. The social insurance scheme will have the function of re-distributing wealth and ensure that the whole society will bear the risk. But if we bear in mind that some members of the public are opposing or have reservations about the CPF, will they really accept the social insurance scheme?

In relation to all the other options, the CPF has some special features of its own. First, the degree of participation. The employer, the employee and the Government will participate, so there will not be the shadow of the so-called welfare state or the so-called 'free lunch', rather, the more we work, the more we earn. So the problem arising from the care of the elderly by the younger generation will disappear. The CPF is by far the better option.

Now regarding the worries about a CPF. Some of my colleagues have already expressed their worries. In my estimation, when the government officials wind up the speeches, they will once again speak on the so-called demerits of the CPF, especially in the economic front. So I will offer my arguments on these issues and analyse them from another angle.

First, the amount involved is too high and is difficult to invest. According to the information given to us in the consultative document, it is said that the contribution to the CPF will be $10 billion per year. There are some accessories here because some fees for example, bonuses, commission and allowances are included and the CPF should only take into account the monthly wages. Moreover, in the consultative document, three types of employees are included, that is, civil servants, employees who are already participating in private provident fund schemes, and also employees who are near to their retirement age. So if we take away these three categories and if we base our calculations on monthly wages, then the figure will be $5 billion, half the sum given in the consultative paper. Take a dynamic model and we will come to the following picture. According to some economists, after 20 years the total amount will be $550 billion. But by that time, the savings, deposit market and the stock market will have a total accumulation of $9,600 billion. If that is the case, the balance on the CPF accounts will only account for 5.7 per cent of that figure, and after 25 years the percentage will drop. The financial sector of Hong Kong can certainly absorb this small amount. It will not constitute any major problem. Now from the economic point of view, for a person with only a small amount of money at his disposal, collective investment is better than individual investment as the risk will be spread. And even if the risk is high, the return rate will also be high.

Furthermore, there will be more room for improvement if we have a larger amount to invest and there will also be investment advisers who are more experienced in this matter.

Second, increase in labour costs. Now Mr. HUI has already analysed this point and Mr. NGAI has answered those points so I do not want to repeat them. However, the test lies in the calculation and so we can all sit down and do the calculation work.

Third, increase in mobility. Now if CPF is compulsory then each and every employer will have to participate. The employees will not change employers just because some employers provide provident fund schemes and some do not, so the mobility rates will not increase. In fact, before the establishment of the CPF, the problem of mobility already exists and the employers have to make use of all sorts of measures such as providing all sorts of fringe benefits in order to retain the talented people. After the establishment of the CPF, if the employers do not change the conditions of service, employees will certainly not change their jobs, so we cannot agree to the saying that the establishment of the CPF will increase the mobility of the workers.

As to the impact of the CPF on the financial sector and the labour force, well the impact will be slight and we can return to our equilibrium very soon. So, it will not be convincing if we deny the establishment of a CPF because of some economic reasons. In considering whether we should set up a CPF, we must not confine ourselves only to the economic angle. We should also study the social and political angles. The nature of a CPF is that we are all responsible for the social problem. The sense of togetherness and public consciousness that arise will bring a lot of political, economical and social benefits. We know that a stable society will be the basis on which we can have prosperity. So in order not to aggravate the problem of the elderly, I do not think we can do without a CPF.

Now I come to the proposals. I believe that given the existing circumstances, the setting up of a CPF will be a physical measure that will be accepted by many parties. Ideally, the CPF will be centrally managed while individually implemented. The Government will set up a management authority to monitor the CPF scheme, and there are five features of the CPF: the compulsive nature of the scheme, the transferability of funds, tripartite participation, stability, protection and so on. Now the Federation of Trade Unions and 141 labour organisations and unions have written a paper on this. I do not want to reiterate those points here. I suggest that the Government should consider implementing the following steps.

First, to set up an ad hoc commission with representatives from the employers, the employees, the professionals and the Government to study how we can protect the retirement life of the elderly. This commission should submit a report in one year's time, so the Government can no longer avoid the issue but will have to find a solution to the problem. Dr. Daniel TSE supports this proposal of mine.

Second, to review the long-service payment scheme and to plug the loopholes so that the elderly workers can benefit from it.

Third, to monitor the existing provident fund schemes.

Fourth, to publicise and educate the employers and the employees on the correct concept of the CPF.

To conclude, I would like to say something or to criticise the Government's attitude on this issue of the CPF. First, the Government seems to be avoiding the issue all the time. It seems that the Government wants to wash its hands of the matter, sit back and watch the relevant parties argue the matter out. Is that the correct attitude to be taken by a responsible government? Now the Government has shelved the problem or the issue for a number of years and then the Government comes up with a paper that seems to be adopting a negative attitude. Then the Government sets up two working groups in a hurry. These are all evidences of my criticism. Second, in the paper submitted by the Government, the Government is only predicting the effects of the CPF on the economy of Hong Kong. The Government has not come up with options for the implementation of the CPF. Therefore people who argue about the CPF cannot easily arrive at a consensus and do ont know how government officials will respond to the request for a CPF. Well, we will have to wait. And will the voices or the opinions voiced by the workers be carefully considered by the government officials? Well, Sir, I have spoken for a long time today but I am from the labour constituency and therefore I have a lot to say on the elderly problem. Now, I will submit to you a portrait of the life and the work of the elderly people here. These are my remarks, Sir.

MR. ANDREW WONG: Sir, despite the fact that we have come a long way from unbridled capitalism with introduction of welfare provisions such as public assistance schemes, old age allowances, disability allowances and so on, and have labour legislations such as long-service payments, severance pay, and protection of wages on insolvency and so on, the problem of financial security of the retired elderly remains, as only about one sixth of our 2.6 million workforce is covered by voluntary provident, superannuation, and pension schemes.

I have no wish to exaggerate the problem as most of the elderly are, and will continue to be, cared for by their grown-up children thanks to the age old Chinese tradition of filial piety. However, adequate care, lovingly and willingly provided in times of boom, might be grudged or even withheld in terms of gloom, if not doom. Think of the plight of the millions who live from hand to mouth in a recession, and think of the acts of desperation they might do when they cannot even live from hand to mouth. The necessity of some arrangements under the rubric of social security is therefore unquestionable, be it for humane and charity reasons or only in the interests of those who require protection against acts of desperation by the needy.

Sir, it is true that welfare provisions termed social security benefits and labour legislations which provide employment benefits are such arrangements and which have been made precisely for those selfless and selfish reasons. But the key questions are: first, are the benefits under the existing arrangements adequate, both in terms of the eligibility criteria and rates of payment? And if not, second, should they be made adequate but only by way of further improving these existing arrangements?

The answer to the first question must be at least a qualified, if not a categorical ‘no’. I am sure Members are all well aware how stringent the criteria and how meagre the payments are, and the Secretary for Education and Manpower’s review of the question of the idea of a central provident fund which has led to this current debate is ample evidence that there is indeed deficiency in the benefits paid out under the existing arrangements if not also the existing arrangements themselves.

Sir, let me come to the second and more important question, that is, should the benefits be made adequate but only by way of further improving the existing arrangements. My answer is again ‘no’, not that the benefits should not be made adequate but that something more than simply improving the existing arrangements is needed. I will first explain this position of mine in connection with welfare provisions or social security benefits so to speak.

Sir, I have two major objections to relying primarily on welfare provisions by the Government to cater for the needs of the retired elderly. One, all such provisions are funded by current tax revenue which pose a very heavy burden indeed on the Government in lean years when revenue is not buoyant, and the leaner the economy is the fatter the demand for welfare provisions. It is therefore important that welfare provisions should only provide for subsistence only. Second, the rates of payment inevitably become major political issues cropping up from time to time with or without direct elections to this Council, as it is the only sure way towards the redistributive welfare state. And I fear, without the introduction of arrangements such as the provident fund, it will become more and more difficult for the Government to ward off social and political demands in this particular direction of increasing the rates and loosening the eligibility criteria.

Sir, I have nothing against capitalism. It is unbridled capitalism that I fear. Similarly, I have nothing against welfare. It is unbridled welfare that I fear. I fear not just for myself but for all and particularly fear for those of us from both camps who unwittingly destroy the fabric of our great society, thereby destroying ourselves.

Sir, let me now explain why the corollary of further improving the existing arrangements in terms of employment benefits, short of introducing provident fund arrangements, is not the correct solution to the problem of the retired elderly. Sir, I have no objection to labour legislations as long as they protect the employees but are at the same time just to the employers. But with labour legislations stipulating the amounts of money to be paid in times of, say, severing or for long-service payment on dismissal, or for other cause and so on, it is difficult to ascertain where justice lies. And with welfare provisions mentioned above appropriately kept at minimal and subsistence level and without the introduction of provident schemes, labour legislations for wider ambits and covering more and more areas like rates of payment for welfare provisions will become major political issues. I am therefore of the opinion that existing arrangements ought to be boosted by the addition of provident fund arrangements. Furthermore, I really do not see the logic behind many employers' objection to the idea of compulsory provident funds, whether central or decentralised. Long-service payment legislation requires employers to pay a maximum of 12 months salary after 18 years of service. A contributory provident fund with employer/employee each contributing 5 per cent is expected to give the employee some 22.7 months' salary after 20 years, assuming an interest rate of 2.5 per cent. In other words, the employer's burden is about 11.35 per cent and this includes actual contributions spread over 20 years and interest on the contributions. Employers are already shouldering this comparable responsibility.

Sir, it should be clear now that I support the idea of legislating for a compulsory provident fund scheme. The compulsion should not be interpreted to mean a restriction on the employees' freedom to decide between spending and saving and to his choice of different forms of investment. Rather, it should be read in the light of savings for old age, and justified on the grounds that no man ought to be given the licence, not freedom, to become a charge to the public, somewhat like the motorist being required to insure against third party risks, perhaps not in their own interest but in the interest of others who might be harmed by their action.

However, Sir, I am against the idea of a compulsory and central provident fund. I will refrain from elaborating my reasons here in the interest of brevity but will simply mention in passing that a decentralised system where possible, and it is possible in this case, is the only system compatible with our competitive and hence innovative free enterprise economy.

Sir, it has taken us some 20 years to arrive at this present state of debate and discussion, the first review being conducted in 1966. I support the call for the setting up of a committee to be appointed by you, Sir, but not to deliberate again on the pros and cons but to study in detail the nitty-gritties of implementation. Let us not procrastinate and put off 'till tomorrow, as there is always a tomorrow after tomorrow, and yet more tomorrows to follow in the vain hope that doomsday will never come.

Sir, I support the motion.

6.43 pm

FINANCIAL SECRETARY: Sir, as Mr. K.C. CHAN said in the first speech in this debate earlier this afternoon, it is clear that there are strongly held and divergent views as to whether Hong Kong should or should not have a central provident fund. Shortly, the Secretary for Health and Welfare will be speaking on public assistance for the elderly and the Secretary for Education and Manpower will be giving an overall assessment of the implications of establishing a compulsory fund. It falls to me to talk about the financial and economic aspects.

As several Members have noted, there are indeed financial and economic implications which cannot be ignored. Let me make it quite clear, however, that it is not my intention to throw cold water on the concept of a central provident fund scheme. Perhaps just a little tepid water. But if the financial and economic implications were to be brushed aside and ignored, then I venture to suggest that we should all find ourselves in very hot water.

It is therefore appropriate for me to draw Members' attention to some of the more important economic and financial considerations. I shall be repeating the observations of some Members who have also spoken in this vein, but I believe the issues to be of sufficient importance and concern to merit repetition. I shall also be drawing on the results of discussions which the Government's economists have had with their colleagues in the universities and the polytechnics and in the financial community.

Sir, before I proceed to sprinkle tepid water, we should perhaps have some idea of the order of magnitude of the sums likely to be involved. At 1985 pay levels an arrangement based on a compulsory 5 per cent contribution from both employers and employees would, as Mr. CLYDESDALE has pointed out, suck out from the community about $10 billion a year; $5 billion from employers and $5 billion from employees. This sum is equivalent to over 80 per cent of the yield of salaries tax in 1986-87 and over 40 per cent of the yield of profits tax. It is just under one quarter of the amount approved by this Council last week for the services of Government in 1987-88. It would bias each and every year the equivalent of three Eastern Harbour Crossings or five Prince of Wales Hospitals. It is, by any standard, an enormous sum of money. Mr. HUI Yin-fat, Mr. TAM Yiu-chung, and others believed that this sum would not greatly affect the financial markets. I share Mr. CHUNG Pui-lam's view that it should be remembered that the $10 billion is only the first year figure and that there would be considerable net accumulations to the fund on the basis of the annual collections for many years before there were any withdrawals of any size.

A central provident fund or any compulsory private fund is, as Mr. Stephen CHEONG has reminded us, essentially a mandatory saving scheme paid for by contributions from employers and employees. Such contributions obviously mean, as Mr. Kim CHAM has pointed out, a reduction in the funds available to these two parties for them to use in other ways as they see fit; a point also, if I remember correctly, made by Mr. NGAI Shiu-kit.

For an employee, one of the immediate results of introducing a central provident fund would be to reduce his take-home pay. A 5 per cent rate of contribution would, as Mr. SOHMEN implied, be the same as a 5 per cent increase in salaries tax and they would in effect be an extension of the tax to at least a million additional employees who currently pay no salaries tax. For the employer, the effect would be roughly the same as an increase of more than 40 per cent in the rate of profits tax, that is from the current 18 per cent to over 25 per cent and would place the heaviest burden upon firms with low profitability and a high payroll. Sir, it might not be easy to persuade either employees or employers to welcome the imposition of compulsory payments on this scale.

In most cases, at least initially, the increased cost to employers would have an effect on the competitiveness of our products internationally. Mr. HUI Yin-fat, Mr. TAM Yiu-chung and Mr. LEE however have suggested that this would not be the case and that the impact on production costs would be minimal. Sir, I cannot agree. Leaving aside the fact that labour costs on a value added basis are much closer to 60 to 70 per cent of production costs than the 20 to 40 per cent mentioned by Mr. HUI Yin-fat, the fact remains, as I have already suggested, that manufacturers are unlikely to be indifferent to what would be equivalent to a 5 per cent wage claim or even more if employees try to recover their contributions from their employers. In the longer term, given that wage rates in Hong Kong are largely determined by supply and demand in the labour market, employers would be tempted, as I think Mr. LEE was implying, to make various adjustments to reduce the cost impact. They could, for example, reduce the size of subsequent wage increases or reduce the number of people to whom they give work. Eventually in either case market forces would tend to reduce real wages sufficiently to restore full employment but with much of the financial burden of the fund having been transferred to employees.

While the adverse effects of a fund on business are unlikely to last for ever, the disruption it would cause in the short run is likely to be marked. In the interim, such economic growth would be sacrificed. Businesses would suffer and jobs might be lost. It is possible that the lost economic growth might never be fully recovered.

So far, Sir, I have been outlining some of the obvious implications of a central provident fund on the economy. As Mr. CLYDESDALE and Mr. Kim CHAM have pointed out, there would also be implications with respect to the employment of the very considerable accumulated funds. If these were recirculated within Hong Kong, they would represent an addition to the pool of funds available for private domestic investment though not, of course, on a one for one basis because some of the savings would have been diverted into the fund. However, as there is only a limited number of viable investment opportunities available locally, there is a danger that if the fund was constrained to invest locally, it would be obliged to invest in lower quality or lower yielding assets to the possible detriment of the participants.

If, however, a substantial proportion of the available funds was invested overseas in foreign currency assets, this could have an adverse effect upon the foreign exchange and money markets and, under the linked exchange rate system, could result in unsettling fluctuations in the levels of Hong Kong dollar interest rates. Let me add, however, that the problems associated with the investment of the accumulated funds would become less acute as payments into and out of the fund approached balance but this would only be after a fairly lengthy period of years.

Sir, the CPF, could also have a redistributive effect on the flows of funds between financial institutions. While the contributors to the fund would mostly be the small depositers who currently put their savings in banks, the CPF would be a centralised fund, hence financial resources would initially be redirected from banks to a single fund. Unless efficient recycling procedures were developed, this could cause problems for the banking sector, especially for those smaller local banks which rely heavily on local deposits.

It has been suggested that an alternative to a centralised provident fund scheme might be the establishment of a number of approved private funds, to which contributions had to be made. This might help to ensure that the funds were managed in the best interests of individual savers, free from the sort of political pressures that might have an adverse effect on a centralised fund's investment decisions and therefore on savers. However, most of the other problems which I have identified in relation to the economy as a whole, and to the impact on employers and employees, would still apply. I do, however, accept that under a decentralised scheme built on a voluntary basis as proposed by Dr. HO Kam-fai and others, the order of magnitude of these problems would be reduced.

In summary, then, the introduction of either a centralised fund or a series of compulsory private funds could have far-reaching financial and economic implications for Hong Kong. The immediate results would be to increase labour costs and to reduce employees take-home pay, the effect being the same as an increase in the rates of profits and salaries tax. This would be likely to have an impact on the levels of economic activity and employment and upon business confidence generally. The extent of this impact would depend upon rates of contribution and the circumstances of individual employers and employees. The immediate adverse effects might work themselves out over time but the transitional period is likely to be lengthy and the setback to economic growth might never be fully recouped.

Sir, it has not been my intention to argue that the financial and economic implications of a centrally managed and centrally imposed compulsory savings scheme are such that they entirely rule out the introduction of a provident fund in Hong Kong. But in sprinkling a little tepid water in this Council today, I have endeavoured to bring to Members' attention the fact that there are difficulties, some of them serious and that these need to be addressed and not pushed to one side. They are not, as Mr. TAM Yiu-chung has suggested, minor. The Government and the community need to be satisfied that the potential benefits of a fund justify the risks to our international competitiveness and to the orderly progression of our economy. The Oxford Dictionary defines 'provident' as 'having or showing foresight'. Sir, in our deliberations over a central provident fund, let us show foresight not only in respect of the social wellbeing of individuals, but also in respect of our collective economic well-being as a community.

SECRETARY FOR HEALTH AND WELFARE: Sir, it is clear from Members' speeches today that the proposal for a central provident fund derives from a very proper concern for the welfare of elderly people in Hong Kong and the need to ensure that after their retirement they have adequate funds to be able to maintain a decent standard of living. Most advanced countries have some form of contributory social security or social insurance system. It seems to me to be quite appropriate that Hong Kong should consider at this stage in its development whether we need to develop a similar system here.

Hong Kong, of course, does have a social security system although it is not operated on a contributory basis. So far as the elderly are concerned, it consists of two elements.

The public assistance scheme is the mainstay of our present social security system. This scheme is related to family means and needs and is therefore consistent with the time-honoured family tradition of Hong Kong. It provides a safety net for those in need and is payable to any family whose income falls below the prescribed level which is calculated on the basis of the number of persons in the family unit. In January of this year 40 575 people over 60 were receiving public assistance. This figure represents some 64 per cent of the total beneficiaries and it is clear that elderly people make up the majority of low income households in Hong Kong. To recognise the additional burden on a family looking after elderly relatives, an old age supplement at the rate of $255 a month for a single person is added to the basic scale of allowances for any PA recipient aged 60 and over. Therefore no one over this age receives just the basic PA rate of $510 a month. Together with the old age supplement and a rent allowance which can be up to $276, the total monthly sum for a single person is likely to be nearer $1,000.

The second element of our social security system is an old age allowance of $255 a month which is not means tested and is payable to all elderly people over 70 years of age, other than those who receive public assistance. This allowance is intended to encourage families to continue to look ater their elderly members and is consistent with our policy of encouraging care in the community. At present over 240 000 people have applied for and are receiving this allowance, 87 per cent of those eligible.

In addition to these cash payments, government and subvented agencies provide a wide range of direct services including home help, community nursing, social centres, day care centres and multiservice centres to help the elderly to continue to live either with their families or on their own in the community. For those who for one reason or another are unable to stay with their families, residential services in the form of hostels, homes for the aged, care and attention homes and infirmaries, are provided to cater for the varying needs of the elderly. At the suggestion of the OMELCO welfare panel, it has recently been decided to set up a committee to co-ordinate services for the elderly. This will include representatives from both the voluntary sector and the Government.

As Members know, as part of the Government's consideration of the central provident fund proposal, I established a small working group some time ago to examine the financial needs of the elderly and the extent to which they are being catered for by the present social security arrangements. This group has not yet reached any final conclusions but from our study during the past few months, several indicators have emerged.

It seems to be very widely believed that the problem of the elderly is due to two main factors. First, that the number of elderly people in the community is increasing rapidly and will continue to do so; and secondly, that the traditional Chinese extended family system is breaking down and the younger generation is increasingly either unwilling or unable to support their parents during their old age.

There can be absolutely no doubt about the first of these two assumptions. As the average life expectancy rises, and it is already amongst the highest in the world, and people live longer, it is inevitable that both the absolute number of elderly people in Hong Kong and the proportion of the total population will increase steadily. According to the population projections, the proportion of the population over 60 will rise from 11.6 per cent in 1986 to 13 per cent in 1992 and to over 14 per cent by the beginning of the next century.

There is, however, no real evidence to substantiate the fear that the family system is breaking down. According to the bi-census, in 1986 over 80 per cent of elderly lived with their families; 7.6 lived with their spouses; and 11.9 per cent lived alone. The proportion living with their families is considerably higher than in most western countries and it can be said, therefore, that families in Hong Kong by and large are still looking after and supporting their elderly members although, as several Members have pointed out, this can represent quite a heavy burden on less well-off families.

We also looked at the proportion of elderly people who are receiving public assistance and how this has changed over the last 10-years. In January 1977, 7.3 per cent of people over 60 were on public assistance, about 29 900 out a total of 412 000. In January 1987, 6.2 per cent of our elderly were on PA, 40 500 out of 656 000. Althought the percentage of elderly people on public assistance has dropped slightly over the 10-year period, the total number has increased substantially and this could result in a steadily increasing financial burden on the community in the years to come.

The statistics also show that quite a large number of people over 60 are still economically active. Over 40 per cent of those in te 60 to 64 age group are still working, although we do not know how many of these people continue to work because they wish to do so and how many because they have no alternative, if they wish to maintain a decent standard of living. But many people in their sixties and even older are still fit and healthy. There are indications that the special needs arising from the infirmity of old age generally become significant at a much higher age than was the case 20 or 30 years ago.

I would like to stress that the working group has not yet completed its study and has not reached the stage where it can make firm recommendations. But some tentative conclusions have begun to emerge. First of all, the statistics I have quoted do not indicate that there is a general breakdown of the extended family system resulting in a very large number of elderly people living on their own and having to depend on state financial assistance. Nevertheless it is true that there is a significant number of elderly people who do rely on public assistance to meet their basic financial needs and this number is likely to increase.

Another conclusion that we have reached is that regardless of whether there is to be a compulsory provident fund system, centralised or otherwise, there will still be a need for a public assistance system simply because the most vulnerable people will be those who for one reason or another have not been in regular employment and will therefore not have built up a provident fund adequate to meet their needs in their old age. Even countries with comprehensive social insurance schemes find it necessary to have supplementary benefit arrangements.

The financial needs of elderly people clearly vary very much depending on their age, their state of health. other personal circumstances, and the degree of family support they receive. Dependency on public assistance tends to increase as people advance in age and significantly after the age of 75. This is clearly because advancing age brings with it increasing frailty and also because any savings accumulated during working life could well be exhausted by this time.

Our discussions will now be directed towards consideration of possible ways of making the social security system more sensitive to the particular needs of elderly people who are in the greatest need. One possibility that we shall consider is that there should be differential rates of old age allowance for different age groups, with the older group—say over 75—perhaps receiving a somewhat higher allowance than those below this age. A second idea which we have been considering is some form of constant attendance allowance which could be part of either the non-means tested special needs allowance scheme or an adjunct to the means-tested public assistance system. This allowance would be payable when an elderly or handicapped person needs continuous care and attention. This usually means either that a member of the family who might otherwise be earning has to stay at home or alternatively that someone else has to be paid to come in to look after the invalid. This idea has an additional attraction in that not only would it help our object of keeping elderly people in the community as long as possible, but it should also relieve the pressure on care and attention homes for which there is at present a long waiting list.

As the title of the 1977 Green Paper on Social Security indicated, the main aim of any social security system is to help those least able to help themselves. The object of our study is not to demonstrate that a central provident fund is not necessary but to contribute to consideration of all the options available to ensure that our elderly citizens are able to live in dignity and reasonable comfort. We shall pursue our study with this aim in mind.

SECRETARY FOR EDUCATION AND MANPOWER: Sir, no one doubts the need to provide for old age but how this should be done is more problematic. The views which Members have expressed this afternoon reflect the broad division of opinion on this subject which exists both in this Council and in the community at large. In view of the large number of points that have been made I will not attempt to give an immediate reply to each, particularly as the Administration will need time to consider Members' views very carefully before reaching any firm conclusion of its own.

Broadly, the division is between those who favour a compulsory provident arrangement of some kind and those who do not. As Members know, the term 'Central Provident Fund' implies a centralised scheme run by a government department or a statutory authority on the lines of the Singapore provident fund.

An alternative would be a compulsory but decentralised scheme run on a standardised and regulated basis by private fund managers. Both versions, the centralised and the decentralised, bring us back to the same question or principle. Should it be compulsory to contribute to a provident fund scheme or should it not?

But this is not the only question at issue. A fundamental concern which has underlain the whole provident fund debate over the past few years is the problem of financial security in old age. This, too, needs to be addressed.

The proponents of compulsory provident fund schemes argue that the age structure of the population is changing, with both the numbers of old people and the proportion of the total population which they represent growing steadily. They argue also that those in work are likely to be less able and less willing in the future to support their elderly relatives. As a result, they argue, the burden upon public assistance scheme is likely to increase dramatically.

If this line of argument is correct, then the case for a compulsory scheme appears persuasive. It would not do away with the need for public assistance as there will always be those who, for one reason or another, are unable to work either long enough or regularly enough to accumulate worthwhile benefits from a provident fund. But the majority of workers at least would be assured of a basic degree of financial security in old age.

I think though we must be careful of accepting too readily the premises which I have described and the conclusion to which they lead. It is certainly true that the population is ageing and that the total number of old people is growing, but as the Secretary for Health and Welfare has just said the picture is not as bleak as this implies. People tend to remain fit and active to a more advanced age and are working longer. The proportion of old people drawing public assistance has remained small and there is no evidence at present that families are either less able or less willing to support their elderly members.

To say this, Sir, is not to dismiss the problem out of hand. It remains true that there is widespread concern about financial security in old age and the question of what can and should be done about this has to be addressed. The setting up of a compulsory provident fund, whether centralised or decentralised, is certainly one approach but it is not the only one, nor it is necessarily the best.

The implications of establishing a CPF were set out in a review paper issued by my branch in October 1986 in which we consulted, among others, the Social Welfare Advisory Committee and the Labour Advisory Board. This review represents the best assessment of the subject that the interested branches and departments of Government have been able to make and I must emphasise it was carried out with an open mind and is an honest attempt to establish the relevant facts and issues. I am sorry that some Members feel it is biased. A copy of the review is appended (Appendix) to the written version of my speech to put it on the record and to make it publicly available.

The arguments for and against a central provident fund are quite easily stated. Proponents argue that it would reduce the future burden of social welfare payments to the elderly and that it would encourage self-reliance. Against this it is argued that those most likely to need help would not benefit from any provident fund scheme and that the economic effects, at least in the short term, would be substantial and probably damaging. I should like to enlarge on what seemed to me to be the three key issues: the impact on the economy, the effect on future social welfare needs, and the question of compulsion.

On the first point, I find it difficult to share Mr. HUI Yin-fat and Mr. TAM Yiu-chung's optimism about the likely economic effects of establishing such a scheme, whether centralised or not. It is not enough to ask whether the individual worker or employer is willing to contribute 5 per cent of his wages to a compulsory provident fund. Some workers may be since they expect their 5 per cent deduction to give them a 10 per cent benefit. But for the reasons which have been explained by the Financial Secretary and as a number of other Members have also argued, the position is not quite so simple. The millions of individual contributions to a central provident scheme or to compulsory individual schemes, would have a collective impact on the rate of increase in real wages. They would also, in the short term at least, tend to reduce the competitiveness of Hong Kong products and possibly even cause some unemployment. It is not clear that those indicating their willingness to contribute to such a scheme would, in the long term, continue to support it.

My second point brings us back to the question of financial security in old age. Provident funds provide the best return to retirees who have been in regular employment for a large number of years and who have earned a resonably high wage. In other words, precisely those who have been in the best position to accumulate savings even without a fund. Hong Kong in fact is believed to have quite a high savings rate. By contrast to other places which have established compulsory provident fund schemes, almost all of them small developing countries, Hong Kong is a sophisticated financial centre. There are many opportunities for private savings for both small and large investors which allow the individual to balance the rate of return against the risk according to his own particular needs and preferences. The small investor is believed to make wide use of these opportunities. It is not certain that compulsory transfer of a portion of his savings to a provident fund would bring him any real benefit.

On the other hand, compulsory schemes, whether centralised or decentralised, could not provide any degree of additional security to those who have not been in regular employment or whose earnings have consistently been low. In other words, precisely those who are likely now to rely on public assistance. This brings me to my third point. If compulsion carries a danger of economic upsets and if it does not in any case address the problem of security in old age for those who are most in need of protection, then it is not easy to see the justification for compelling the entire economically active population to contribute to a provident fund.

For all of these reasons, we must think very carefully before embarking on a compulsory provident fund scheme. It is after all very much easier to set up such a scheme than to wind it down once it is started. All the more reason to be quite clear about the alternatives before a decision is taken.

As Members will know, two working groups have been established within the Administration to examine alternatives. A number of members have expressed concern about the setting up of these working groups, that it may be a sign that the Government is unwilling even to consider the compulsory approach. I would like to assure Members that this is not so. The proper time to explore options is before a decision is taken and that is our objective. The review paper referred in general terms to a possible alternative strategy. We do need to know rather more precisely what this strategy might comprise before an informed judgment can be made.

One element in such a strategy might well be to improve the existing framework of social security provision. The working party chaired by the Secretary for Health and Welfare is examining this question and he has already spoken to us on it.

A second element in an alternative strategy might be to encourage the establishment of private provident fund schemes on a voluntary basis. The long-service payment provisions introduced into the Employment Ordinance last year have already provided a significant incentive to the setting up of company schemes, since the employers's liability can be offset against his contribution to any payment from an approved provident fund or retirement scheme. In this context I must emphasise that I cannot agree with Mr. HUI's view that improvements to the long-service payment scheme are an irrelevance. As I have already said, the proper time to explore all the options is before a decision is taken and improving the long-service scheme is clearly one of the choices open to us. When the scheme was introduced I promised that it would be reviewed after it had been in operation for a year. The Labour Department has now conducted this review and improvements being considered include the possibility of extending the scheme to employees who retire because of sickness or old age, or the payment of benefits to dependants of those who die while still working. The need for improvements on these lines was mentioned by Mr. LEE Yu-tai.

The second working group which is chaired by an officer in my own branch, is considering what futher steps might be taken to encourage the development of satisfactory and effective arrangements on a voluntary basis. For example, it has been discussing with the Insurance and Actuarial Association whether it is possible to develop a model scheme, including provision for an employee to transfer his benefits when he changes jobs, the need for which has been argued by several Member this afternoon. As Mr. David LI has said, there is room for more than one point of view on this and all aspects will be carefully considered by the working group. In parallel with these two working groups, the Secretary for Monetary Affairs is examining the question of supervision of retirement schemes to safeguard employees' interests, another problem which some Members have mentioned this afternoon.

In conclusion, I would like to re-emphasise what I have already said. The Government has not yet made up its mind on this issue and is genuinely open to all points of view. Many Members have spoken on the need for a committee or commission and if anything has emerged clearly from today's debate it is that further consideration and consultation are necessary before a final conclusion can be reached. The debate itself has been an important element in the process and the views which Members have expressed, including the proposal for a commission, will be conveyed to the Executive Council in due course, along with the findings of the two internal working groups. It is hoped that both groups will complete their work within a month or two. The scope for further consultation, including the possibility of a commission, will then be one of the issues which the Executive Council will wish to consider before a final decision is taken. As Sir Edward YOUDE said at the opening of this session, the implications are far-reaching and the eventual decision will affect not only the welfare of the workforce but also the general state of our economy.

Question put on the adjournment and agreed to.

Appendix

The Implications of Establishing a Central Provident Fund in Hong Kong

Introduction

The possibility of establishing a central provident fund (CPF) in Hong Kong has been considered intermittently over a number of years. Two working parties, constituted in 1966 and 1975, considered CPF schemes in the context of the further development of the social security system and both recommended against the establishment of a CPF. The report of the second working party was presented to the Executive Council in November 1975 and the working party was subsequently reconstituted, with broader representation, to undertake a more detailed study. A further report, submitted to the Executive Council for information in August 1977, concluded that the balance of economic, social and political arguments did not favour the establishment of a CPF.

2. Since 1977, there have been periodic calls from various quarters for the setting up of a CPF and a number of questions on the subject have been asked in the Legislative Council. Replies by the Secretary for Social Services (and later the Secretaries for Health and Welfare and for Education and Manpower) have emphasised that the Government's social welfare strategy was to help those least able to help themselves, by means of a non-contributory social security system based on the Public Assistance Scheme and Special Needs Allowance. In November 1984, in reply to a point made in the course of the policy debate in the Legislative Council, the Secretary for Education and Manpower thought that both employers and employees were likely to have reservations about the levels of contribution necessary for a viable CPF scheme, but indicated that he would have no objection to further study of any scheme which seemed likely to attract widespread support and to offer the prospect of a worthwhile return without requiring a penal rate of contribution.

3. During the 1985 policy debate in the Legislative Council, and again during the recent Budget debate, the Secretary for Education and Manpower advised Members that the Government was itself reviewing the whole issue. The present paper attempts to summarise the arguments both for and against the establishment of a CPF as a basis for further consideration.

Characteristics of statutory provident funds

4. A number of developing countries in Asia, Africa and the Caribbean operate statutory provident funds. The majority of these countries were previously under British administration, but other countries, such as Nepal and Chile, also operate funds of this kind. Provident funds are essentially a form of compulsory savings scheme. Each member has his own account into which contributions are paid and upon which interest is earned. The balance is normally payable, in a lump sum, to a member when he reaches a specified age (normally 55) or can no longer work because of ill health or injury, and to his designated dependants in the event of his death. It is also generally payable to a member who emigrates permanently, and in some systems full or partial withdrawal of contributions is permitted in the event of a member's unemployment or for certain specified purposes such as home-purchase, medical treatment or children's education or marriage expenses.

5. Contributions to statutory provident funds are made by both employees and employers. The total contribution is generally a percentage of the employee's wages, either with the amount shared equally or with the employer paying the larger portion. Contributions are normally made monthly and in some schemes there is a ceiling on the amount of an employee's earnings subject to contribution. The rate of contribution to statutory provident funds in the Asia/Pacific region ranges from 3 per cent of wages in the case of Indonesia to 35 per cent of wages (50 per cent prior to 1 April 1986) in the case of Singapore, with the norm being between 10 per cent and 20 per cent (Fiji, India, Kiribati, Papua New Guinea, Solomon Islands, Western Samoa, Malaysia, Nepal, and

Sri Lanka). Contributions to the Singapore Central Provident Fund are exceptionally high because in addition to the traditional protection provided by a statutory provident fund the scheme is also designed to assist with home purchase, and this element in the scheme accounts for the larger part of a member's contribution to the CPF.

6. Membership of statutory provident funds is compulsory for most persons in wage and salaried employment. In countries where government employees have other protection they are normally excluded from the fund's coverage, as—in order to avoid administrative complexity—are casual workers and workers in small establishments. In some schemes self-employed workers may participate on a voluntary basis.

7. Members' contributions are invested by the managers of the fund and the return on investment is used to pay interest on members' accounts. Statutory provident funds are established either as departments of government or, more often, as statutory bodies over which a specified ministry, usually labour or finance, exercises general supervisory responsibility. In the latter case, day-to-day control is usually in the hands of a tripartite board representing the interests of employees, employers and the government. Investments are normally restricted by the country's relevant trustee legislation and, in most Asian countries with statutory provident funds, are directed into government and government-guaranteed securities, though some countries permit investment of some portion abroad. Provident funds are a major source of funds to meet government borrowing requirements in many countries operating CPF schemes.

8. The two most significant CPF schemes in terms of size—and the two which are most relevant for purposes of comparison—are those of Singapore and Malaysia. Levels of contribution to the Singapore CPF rose to an aggregate of 50 per cent of earnings in 1985 (based on matched contributions of 25 per cent of earnings from both employer and employee), but the rate of employer contributions has recently been reduced substantially (to 10 per cent of earnings), bringing the aggregate contribution down to 35 per cent of earnings.

9. The Malaysian scheme is designed to provided a lower level of benefit than the Singapore CPF and contribution rates are therefore significantly lower (an aggregate 20 per cent of earnings consisting of a contribution of 11 per cent from the employer and 9 per cent from the employee).

Arguments for a CPF

10. A variety of arguments have been advanced by those in favour of establishing a CPF. The principal one of these is that such a scheme would help people to provide for their old age, a problem that is likely to become increasingly important as the proportion of the population aged 60 or over continues to grow and as traditional family ties tend to weaken. Other arguments advanced are, briefly, as follows:

(*a*) A CPF would remedy certain deficiencies in our existing social provision and ease the burden on general revenue by reducing the number of claims under existing social security provisions.

(*b*) By so doing, a CPF would improve Hong Kong's international image.

(*c*) A contributory scheme would be in accordance with the existing social security strategy of assisting those least able to help themselves, while otherwise encouraging self-reliance.

(*d*) Because benefits under a CPF system are directly linked to contributions, there would be less pressure for improved benefits than under the present system where benefits are paid for by Government or by the employer.

(*e*) A CPF which provided for full transferability of benefits should facilitate labour mobility, whereas benefits linked to length of service with a single employer tend to discourage it.

(*f*) A CPF would make available a substantial source of funds to meet Government borrowing if required.

Arguments against a CPF

11. A range of contrary arguments has been advanced by those against the setting up of a CPF. The main weakness, it is argued, of a CPF as a solution to the problem of old age is that, because benefits depend on contributions, those in greatest need tend to receive the least benefits. A CPF scheme would confer the greatest level of benefit upon those who have enjoyed regular employment, have contributed over a long period of years and have earned a reasonably high wage. In greatest need, however, are those who in contrast have been unable to work, have worked only irregularly or have received a low wage. A CPF would be of little benefit to such people. Other arguments advanced against a CPF are:

(*a*) Hong Kong already has a substantial framework of social provision which makes a CPF unnecessary.

(*b*) Because it would do little to help those in greatest need, a CPF would not significantly reduce the volume of claims under existing social security arrangements.

(*c*) A CPF would reduce employees' take-home pay, lowering standards of living and leading to pressure for pay increases (with further adverse effects on firms).

(*d*) A CPF would be economically damaging. By increasing labour costs, it would have an adverse effect on the viability of individual firms and upon our international competitiveness. This would in turn hinder economic growth.

(*e*) Given that, for both employers and employees, the introduction of a CPF would result in additional outlays, the effect would be the same as an increase in taxes.

(*f*) There would be pressure upon Government to meet the administrative costs of a CPF and to 'top up' benefits if the rate of return achieved by the fund fell below expectations.

(*g*) A CPF, as a centralised compulsory savings scheme, would not in fact encourage self-reliance but rather discourage it by removing the individual's freedom of choice and obliging him to rely upon a state-organised fund.

(*h*) The creation of a CPF would discourage firms from operating their own provident funds, the introduction of which has been proceeding at a fast pace, and thus would promote state enterprise at the expense of private enterprise.

(*i*) A CPF would be an institutional investor of enormous size and power. Its effects upon the financial market and upon the economy would be unsettling at best and dangerous at worst.

(*j*) The existence of a large and convenient source of funds to meet Government borrowing would encourage a less responsible fiscal strategy.

(*k*) The benefits from the introduction of a CPF would be less than anticipated as many of the firms which would be required to participate in the CPF already operate their own staff provident funds.

12. A more detailed consideration of the economic and other implications of establishing a CPF is set out in the following sections of the paper.

Fiscal implications

13. As stated above, the accumulated resources of a CPF could, if desired, be made available for public borrowing. Such borrowing might be used to enable the Government to run a capital or recurrent deficit or, for example, as an additional source of funding for the Housing Authority. At present the authority relies largely upon loans on concessional terms from the Development Loan Fund to finance the public housing programme (although the bulk of the outstanding public housing requirements is expected to be met over the next 10-12 years and the Housing Authority is moving gradually towards financial self-sufficiency).

14. Against this, it would be inequitable to require the CPF to lend funds to Government more cheaply than any other source. Nor has it been necessary, other than on a very limited basis, for Government to resort to borrowing to meet fiscal deficits and on such occasions there has been no difficulty in borrowing from market sources. The Government has no intention of altering its current financial philosophy in favour of greater reliance upon deficit financing.

15. In the event that Government did make use of a CPF as a source of funds, such action would lay it open to criticism on the grounds of operating a form of disguised taxation and to pressure in the direction of less rational investment decisions and consequent misallocation of resources.

Labour market implications

16. An important feature of a CPF is that the employee's entitlement to benefit is not dependent upon either continued service with a particular employer or length of service in a particular job. To this extent, a CPF has some advantage over legislation which links benefits specifically to length of service with a single employer.

17. Because CPF contributions are normally levied as a percentage of an employee's earnings, they would vary in proportion with earnings. The employer's contributions are thus a cost which varies with economic conditions and not a fixed overhead. Once the labour market has adjusted, in terms of wages, employment and so on, to the existence of a CPF, its existence should not significantly affect either labour mobility or the willingness of entrepreneurs to invest.

18. Nor, in the long-term, should introduction of a CPF result in employers' being forced to raise wages to offset the lower take-home pay which would result from enforced CPF contributions. This may happen where collective wage bargaining is involved. But in Hong Kong, where wage rates are largely determined by supply and demand in the labour market, although pressure might be exerted, especially in the period immediately after the introduction of a CPF, the eventual effect on wages may not be very significant.

19. To the extent that employees did succeed in bargaining for higher wages levels to offset their CPF contribution, employers would, in effect, be responsible for both the employer's contribution and the employee's contribution. The increased cost to employers would in most cases adversely affect an industry's profitability or the competitiveness of its exports in the short term. In the longer term, it is likely that various adjustments would be made by employers to reduce the cost impact, for example, by reducing the rate of subsequent wage increases or by scaling back the number of employees. Eventually, in either case, market forces would tend to reduce real wages sufficiently to restore full employment.

20. It must be stressed that the above discussion relates to the long term. Even in a labour market as flexible as Hong Kong's, the disruption caused by the introduction of a CPF is likely to be very considerable. To the extent that the necessary adjustments to wage rates do take place, this would be over a long period of years and in the interim business would suffer and jobs would be lost.

Macro economic implications

21. The effect that a CPF would have on the pattern of private savings and consumption in Hong Kong is not clear. It depends on the size of the flows into and out of the fund and the effect such flows have on the economic behaviour of those contributing to and benefiting from the fund.

22. During the initial period of operation of a CPF, the number of contributors would greatly outnumber the number of beneficiaries, given that it is only past contributors who can benefit and then only in proportion to their contribu-

tions. Thus, there would be a heavy net inflow of funds in the early years. This would gradually diminish over time with the eventual position depending on demographic factors and the rate of increase of money incomes.

23. In the early years, the economic effects of a CPF would be dominated by its effect on the behaviour of contributors and the uses to which the accumulated funds were put. It seems unlikely that employee contributions would be financed wholly, or even largely, by a reduction in personal savings. It is there-fore likely that there would be a drop in consumption by employees, at least initially, with an adverse effect on consumption-related businesses and levels of employment in such businesses. Once the CPF was operating more nearly in balance, however, this effect might well be reversed because it is likely that beneficiaries, being older and on lower incomes, would have a higher propensity to consume out of income than contributors.

24. The introduction of a CPF would have a redistributive effect similar to that of an increase in tax, although in this case resources would be reallocated from employers and employees to the fund rather than to Government. In 1985, the direct earnings of employees, are estimated to have been of the order of $100 billion. On the basis, therefore, of a combined contribution rate of (for example) 10 per cent, and assuming maximum coverage for the scheme, employees and employers would each have contributed some $5 billion to the CPF. This sum is roughly equivalent to the yield of salaries tax and to over 50 per cent of the yield of profits tax.

25. For the employee, the effect of introducing a CPF with this rate of contribution would thus be the same as a 5 percentage point increase in salaries tax, with extension of the tax to at least a million additional employees. For the employer, the effect would be roughly the same as an increase of 50 per cent in the rate of profits tax. However, given that there is no simple relationship between payroll and the level of taxable profits, the impact on individual employers would vary widely, placing the heaviest burden upon firms with low profitability and a high payroll. A likely effect of the additional burden upon employers and employees would be pressure for compensatory reductions in tax rates.

26. As regards the effects on the economy of the accumulated funds, this would depend on the use to which they were put. If, as discussed earlier, they were regarded as a source of funds enabling the Government to run a deficit, the critical question would be how productively the funds were used. If they were used to fund adequately productive investments, this could be of benefit to the economy. A less satisfactory allocation of resources has, however, often been the result elsewhere.

27. If the funds were recirculated within Hong Kong, they would represent a potential addition to the pool of funds available for private domestic investment, though not on a one-for-one basis because some savings will have been diverted

into the CPF in the first place. The existence of extra loanable funds would not necessarily induce additional private investment, however, unless interest rates fell or lenders became less critical in their appraisal of investment risks.

28. Under the linked exchange rate system, the potential for domestic interest rates to fall relative to US dollar rates is limited. One likely reaction to the provision of extra loanable funds in the domestic money market is, therefore, an increased outflow of funds with consequential implications for other components of the balance of payments. It is not possible to be precise about which components would be affected and in what way, except to say that—as the balance of payments must by definition balance—a net counter-balancing inflow would have to be generated.

29. If, as is quite likely, the counter-balancing inflow arose from an increased surplus on the balance of trade, this might well be achieved by a reduction in the level of imports brought about at the cost of a slowdown in economic activity generally. This would probably be a transitional phenomenon diminishing in effect as payments into and out of the CPF approached balance, but it would take place over a fairly lengthy period of years at the cost of a set back to economic performance which might not be recovered.

30. Similar effects to those described above would result if the CPF were authorised to invest some part of its funds overseas rather than in Hong Kong. In that event, a direct rather than indirect outflow of funds would occur, leading to the same process of adjustment.

Monetary and investment implications

31. Contributions each year to a CPF would amount to a very substantial sum-equivalent, on the basis of maximum coverage and a 10 per cent combined rate of contribution, to some $10 billion in 1985 (see paragraph 24). These funds would be invested by the CPF managers and the macro economic impact of this has been discussed above.

32. From a monetary standpoint, the appearance of an institutional investor of this magnitude would have a major impact on financial markets in Hong Kong. The nature of this impact is difficult to foresee and would depend upon the investment strategy of the CPF. The fund would undoubtedly hold an investment portfolio very different from the one which contributors to it would otherwise collectively hold in the absence of a CPF, in which case the impact is likely to be disruptive. For example, a desire to invest a substantial proportion of available funds in foreign currency assets would be likely to have a major adverse impact upon the foreign exchange and money markets. This would take the form of unsettling pressures on the exchange value of the Hong Kong dollar and on interest rates and it would almost certainly be necessary for the Exchange Fund to take a more active role in order to restore and maintain monetary stability.

33. Constraints could be imposed upon the investment strategy of the CPF in order to minimise the disruptive effects upon financial markets. The CPF might, for example, be required to concentrate its investments in the domestic market. In this case, however, there are insufficient first class Hong Kong dollar assets to absorb the volume of funds likely to be available and there is a danger, therefore, that the fund would be obliged to invest in lower quality assets.

34. Constraints of this kind upon the investment strategy of the CPF might accordingly have an adverse effect upon the rate of return achieved. If the effect on benefits were to be compounded by erosion of their real value resulting from a period or periods of high inflation, then there might well be discontent on the part of recipients leading to pressure for 'topping up' of benefits payable from the CPF.

Public service implications

35. The establishment of a CPF would add to existing pressure for the funding of civil service pensions and the introduction of provident fund type arrangements for the Civil Service. Although serving civil servants might continue to be covered by existing pension arrangements it would be very difficult to argue against extending a CPF to cover newly recruited civil servants at least. An extension of the scope of the CPF to the Civil Service would have financial implications. Even if membership of the CPF was restricted to new recruits, the cost at current prices, assuming an employer's contribution of 5 per cent, is estimated to be $13 million in year 1 rising to $266 million in year 10 and $586 million in year 18.

Employee reaction

36. To reduce the administrative costs of a Central Provident Fund to an acceptable level (the administrative costs of the Singapore Central Provident Fund accounted for 63 per cent of its income when it was introduced with a membership of 240 000, but with increasing membership, these have fallen to around 2 per cent), it would be necessary for a CPF to cover a substantial percentage of the territory's workforce. It is difficult to estimate with any accuracy what the cost would be of administering a CPF in Hong Kong. For purposes of calculation (see Annex, paragraph 3(*c*)), it has been assumed that costs would be quivalent to 2.25 per cent of contributions at a 10 per cent contribution rate. While this figure must be treated with reserve, administrative costs would clearly be substantial. It is for this reason that a CPF scheme should be compulsory and that any categories of employees exempted should be minimised (exemption of civil servants, for example, would amount to a major restriction in coverage as would exemption of persons already covered by a private scheme). Consequently, a broad measure of support for the scheme is essential.

37. The term 'central provident fund' (中央公積金) tends to evoke a degree of instinctive support which a more descriptive title making clear its essential feature as a centralised compulsory savings scheme for those in employment

would not. Even so, and despite claims made by various spokesmen on the subject, it is far from clear that long-term support would be forthcoming from the majority of workers covered by the scheme and two factors in particular suggest that it may not.

38. *Firstly*, workers in Hong Kong generally prefer higher take-home pay to additional fringe benefits. This is consistent with the assumption that economists generally make that payment in cash enables an employee to attain a higher level of utility than payment in kind because with a cash payment he can choose the basket of goods and services that suits him best. A CPF scheme is, in essence, a forced saving programme and it is unlikely that the split between present consumption and future consumption that would be implicit in the scheme would be in line with the wishes of employees generally. Indeed, if all individual employees were already choosing to make the split implicit in the CPF, there would be no need for such a fund.

39. *Secondly*, even assuming that support for a Central Provident Fund could be mobilised now, there could well be subsequent pressure for withdrawals from the scheme, especially in periods of political or economic uncertainty.

40. The reaction of employees will also, of course, depend to some degree upon the level of benefits which might be expected from a CPF. Calculations have been made (see Annex) showing the size of the lump sum, in terms of number of months' final salary, resulting from varying combinations of rate and period of contribution. Also shown is the size of the lump sum required to purchase an annunity equivalent to varying percentages of final salary.

41. By way of illustration, a combined contribution rate of 10 per cent would, after 20 years and assuming that the CPF achieves a real rate of return on investment of 2.5 per cent per annum, produce a lump sum equivalent to 22.7 months' final salary. After 30 years, the lump sum would be equivalent to 33.2 months' final salary. These amounts would in turn be sufficient to purchase an annuity, based on a similar rate of return, equivalent to 15.6 per cent and 22.8 per cent of final salary respectively.

Employer reaction

42. The coming into effect of the long-service payment legislation has prompted many employers to think about their long-term liabilities and to examine the advantages of establishing private provident fund schemes (contributions to an approved scheme attract tax relief and benefits payable may be offset against long-service payments). In general, however, employers appear to have very considerable reservations about a centralised and compulsory CPF scheme. Concern has already been expressed about the cumulative cost to employers of the various items of labour legislation introduced in recent years and while in the long term, as discussed above, the effect upon wage costs of a CPF scheme would tend to be adjusted out, the short to medium-run impact upon individual employers could be considerable. It is likely therefore that any

proposal for establishment of a CPF would be strongly resisted as a very significant addition to the burden of costs which the employer must bear. This is especially so at a time of particular sensitivity to cost-increases.

The existing framework

43. Before a view can be taken on the desirability or otherwise of a CPF scheme for Hong Kong, consideration must be given to the adequacy of existing arrangements. The major benefits of a traditional CPF scheme are provision for retirement, medical care, unemployment and (in the case of Singapore) housing. If there are real needs in these areas in Hong Kong, and if they can be or are being met in other ways, either through Hong Kong's housing programme, non-contributory social security and health care systems and its labour legislation, or through existing savings schemes and provident funds, the case for a CPF is correspondingly reduced, particularly in view of the likely scepticism on the part of a substantial section of the workforce about a centralised contributory scheme providing deferred benefits. The existing framework of provision is examined below.

Housing benefits

44. Inclusion of housing among the objectives of the Singapore Central Provident Fund, while the most popular feature of this scheme, necessitates exceptionally high rates of contribution. Hong Kong's massive public housing programme and related Home Ownership Scheme (HOS), which are at present providing accommodation for over 2.5 million people, or about 47 per cent of the population of Hong Kong, already caters to this need. So far, more than 60 000 flats have been sold under the HOS and related Private Sector Participation Scheme, and more than 42 per cent of the families who bought these flats were former public housing tenants. The finance institutions are already providing a ready and effective source of mortgage finance for home purchase. The tenants of rented public housing can, moverover, pass on their flats from generation to generation, thereby securing in effect many of the benefits of home ownership.

Social security benefits

45. Social security, to at least a minimum standard of provision, is a responsibility accepted by Government and this is ensured mainly through non-contributory schemes. These include public assistance, special needs allowance, criminal and law enforcement injuries compensation, traffic accident victims assistance and emergency relief. All except public assistance are non-means-tested.

46. The Public Assistance Scheme provides cash grants to bring the income of a household in need up to a level which permits essentials, such as food and clothing, to be obtained. The cost of accommodation is covered separately by a rent allowance, while special expenses, such as for education, transport, or

special dietary needs, are met by discretionary payments. Within the Public Assistance Scheme, additional flat rate supplements are provided for long-term recipients (long-term supplement), elderly recipients over 60 years of age (old age supplement) and partially disabled recipients (disability supplement). At the end of August 1986, some 60 000 households (comprising 90 000 persons) were in receipt of public assistance. Improvements to the scheme, which would extend the scope of the disregarded income arrangements and provide more assistance to larger families are being considered. There is however, concern that improvements in public assistance levels might reduce the incentive to seek full-time employment and the economic implications of the proposals will accordingly require careful assessment.

47. The Special Needs Allowance Scheme comprises old age allowance and disability allowance. It provides cash assistance, on a non-means-tested basis, to meet the special needs of the elderly and the severely disabled. The qualifying age for the old age allowance is 70, and the disability allowance is for those who have suffered a total loss of earning capacity. At the end of August 1986, some 232 000 persons were receiving the old age allowance and some 48 000 the disability allowance. The possibility is being examined of introducing a new allowance, perhaps subject to means testing, for severely disabled people who require constant attendance.

48. Both the public assistance and special needs allowance scales of payment are reviewed from time to time to ensure that these keep pace with the cost of living. An overall review of old age benefits is also planned.

49. The Criminal and Law Enforcement Injuries Compensation Scheme provides compensation for people injured or for dependants of those killed in crimes of violence, or through the action of a law enforcement officer in the execution of his duty. The Traffic Accident Victims Assistance Scheme provides prompt financial help to traffic accident victims or their dependants, regardless of who was at fault in causing the accident. Emergency relief, in the form of cash grants, cooked meals and daily necessities, is provided for victims of natural disasters. All three schemes provide grants to compensate for loss of a wage-earner, differing degrees of disability, additional medical expenses arising through injury and loss of earnings over an interim adjustment period.

Medical benefits

50. Hong Kong's public health service is substantially subsidised out of general revenue and charges are low. The charges for consultations at general out-patient clinics and specialist clinics are $9 and $12 respectively. The charge per visit for physiotherapy, occupational therapy and child assessment is also $12. These charges may be reduced or waived in cases of hardship certified by a medical social worker. Patients in third class beds in government hospitals are charges an all inclusive fee of $18 per day and this fee may also be waived if

warranted. Medical services offered at maternal and child health centres, tuberculosis and chest clinics, social hygiene clinics, accident and emergency departments and floating clinics, are free.

Employment benefits

51. There has been considerable incremental improvement over the last few years to Hong Kong's labour legislation, in accordance with the target, announced by the Governor in his opening address ot the Legislative Council in October 1976, of achieving a level of legislation governing safety, health and conditions of employment at least broadly equivalent to the best in neighbouring Asian countries at a similar stage of economic development and with a similar social and cultural background. While there is no provision in Hong Kong's existing legislation for retirement or unemployment benefits as such, there are various provisions which do in some measure compensate for this.

52. *Long Service Payment*. From 1 January 1986, employees within the scope of the Employment Ordinance have become eligible, upon termination of their contract of employment and subject to a specified period of qualifying service, for a long-service payment, at the rate of 2/3 month's wages for each year of service with the same employer. Although conceived as an alternative to unfair dismissal legislation rather than as a substitute for retirement benefits or a CPF, the scheme can provide a substantial cash payment to an elderly employee on termination of his employment. For example, an employee nearing the end of his working life with 18 years' service with the same employer would be eligible for the maximum long-service payment equivalent to 12 times his final monthly wage. This compares with the projected benefits of a CPF shown in the Annex.

53. The long-service payment scheme is open to criticism on a number of grounds. Its coverage is limited. The long-service payment is made upon dismissal, but not in cases of voluntary retirement, and employees who are summarily dismissed or who resign on medical grounds are also at present excluded from its coverage. There is also scope for employers to dismiss an employee before he becomes qualified for a long-service payment. Another point which has been criticised is that employees below the age of forty are only entitled to a fraction of the payment, 50 per cent or 75 per cent depending on their age. The scheme will be reviewed after a year's operation and consideration will be given to broadening the eligibility criteria and to provision of a higher level of benefit for those under 40 years of age. The review will also examine the possibility of payment of benefits to dependents on the death of the employee.

54. *Severance pay and protection of wages on insolvency*. The Employment Ordinance requires a severance payment to be made to an employee who is laid off or otherwise made redundant. In 1974, when severance pay was introduced,

the rate was set at 1/3 month's wages for each year of service. The rate has subsequenlty been raised twice, firstly to 1/2 month's wages and recently, in June 1984, to 2/3 month's wages.

53. Given that employees laid off are normally able to find new employment relatively quickly and that public assistance is available to an unemployed worker (subject to a means test and provided that he is registered with his local employment office and actively seeking work), the present rate of severance pay is considered adequate.

56. There have, however, been a number of cases in which severance pay owed has not been paid in full because of insufficiency of assets on conclusion of winding-up or bankruptcy proceedings. This has led to calls for extension of the scope of the Protection of Wages on Insolvency Fund to cover severance payments. At present, the fund's coverage is limited to wages owed, up to the preferential limit of $8,000 specified in the Companies and Bankruptcy Ordinances, but extension of coverage to wages in lieu of notice is being considered and further extension to severance pay at a later date may also be possible in the light of further experience with the operation of the scheme.

57. *Employees' Compensation*. Employment-related injuries and diseases, including pneumoconiosis, are compensated under the Employees' Compensation Ordinance and the Pneumoconiosis (Compensation) Ordinance. Compensation is also payable to dependants when an employee dies in consequence of a work-related injury or illness. Employees on sick leave and female employees on maternity leave continue to be paid at two-thirds of their normal wages during the period of absence, up to a maximum of 120 days in the case of sick leave and during the period of maternity leave (from four weeks before the expected date of confinement to six weeks after the actual date of confinement.)

58. *Private Sector provident schemes*. In considering benefits available to employees, account should be taken of various company-run schemes. Many employers do now offer their employees the opportunity to save towards their retirement through provident funds and superannuation and retirement schemes. Employer contributions to such schemes are eligible for tax relief. At the end of September 1986, 4 429 schemes had been approved by the Commissioner of Inland Revenue and this number is increasing by more than 50 per month. (An unknown but possibly substantial number of other schemes had not so far sought approval.) It is estimated that approved schemes cover at least 200 000 employees in the private sector. In addition, a further 200 000 civil servants and employees of subvented organisations are covered by pension or provident fund arrangements.

59. Some of these schemes operate on the basis of contributions from both employer and employee, others on the basis of employers' contributions only. Typical levels of contribution amount to 15 per cent of the employees' salary, split either on the basis of a 7.5 per cent contribution from both sides or a 5 per cent

contribution from the employee and a 10 per cent contribution from the employer. In such cases, the benefits are directly related to the value of contributions, but there is a growing trend towards 'final salary' schemes, where the benefit is related to the value of the employee's salary upon retirement and the length of service with the employer, similar to the long-service payment scheme under the Employment Ordinance. Some 628 'final salary' schemes have been approved.

60. Not all of these schemes, however, offer the same degree of security as a Central Provident Fund with regard to the management of assets, and there have been cases where the assets of an employee-contributory provident fund have been lost on insolvency of the employer because of the absence of any requirement for separate funding and management. It is proposed to remedy this defect by amending the Employment Ordinance to prohibit deduction of wages in respect of contributory schemes unless the fund has been approved by the Commissioner of Inland Revenue under the Retirement Scheme Rules, which required independent management of assets.

An alternative way forward

61. An alternative to the introduction of a Central Provident Fund might comprise the following elements. First, given that Hong Kong—unlike many of the other countries in which CPF schemes have been introduced—is a sophisticated financial centre, would be to emphasise the increasing availability of private saving and investment schemes of interest to the average employee. These allow the individual greater freedom in deciding his own preferences as between saving and consumption and as between various kinds of scheme offering varying combinations of risk and return. Examples of such media available to the small investor would be:

— *deposits with licensed banks*. The many types of deposits available provide a secure form of investment, although rates of return are relatively low;

— *units trusts*. There is a wide variety of unit trusts investing funds in both local and overseas markets;

— *life assurance*. This provides a well-established and flexible way in which to make provision for both retirement and the protection of dependents in the event of premature death. A wide range of schemes is available, from term assurance to various types of endowment contract (with or without annuity options);

— *credit unions*. These provide both a channel for savings and a source of loan finance at low rates of interest.

— *real property*. With the availability of mortgage finance through a variety of financial institutions, investment in real property is open to an increasing number of small investors.

— *the stock market*. A well-established and popular mode of investment for small as well as large investors.

62. A second element would be to continue the present policy of gradual improvement to the existing—and already quite substantial—framework of social provision as and when specific deficiencies are identified or availability of resources makes possible an improvement to the general standard of provision. Examples referred to in earlier paragraphs are:

— *long-service payment scheme*. A review of the arrangements will be completed early next year and consideration will be given in this context to broadening the eligibility criteria to include, for example, those who resign on medical grounds. Consideration will also be given to provision of a higher level of benefit for those under 40 years of age and payment of benefits to dependents on the death of the employee.

— *protection of wages on insolvency*. Extension of the scheme to cover wages in lieu of notice is now being examined and, if experience with the operation of the scheme continues to be satisfactory, extension to cover severance pay may also be feasible in due course.

— *protection of contributions to private provident funds*. It is proposed to amend the Employment Ordinance to prohibit deduction of wages in respect of contributory schemes unless these have been approved by the Commissioner of Inland Revenue, who requires as a condition of approval, the independent management of funds.

— *social security benefits*. Improvements to the Public Assistance Scheme, to extend the scope of the disregarded income arrangements and provide more assistance to larger families, are being considered although there is concern about their economic implications. Consideration is also being given to a new allowance, possibly means tested, under the Special Needs Allowance Scheme for severely disabled people requiring constant attendance. Scales of payment under both schemes will continue to be reviewed periodically to take account of increases in the cost of living. An overall review of old age benefits is also planned.

63. As stated in paragraph 58, a total of 4 429 private provident fund and superannuation and retirement schemes, covering more than 200 000 employees, had been approved by the Commissioner of Inland Revenue up to the end of September 1986 and the number is currently increasing by about 50 per month. A third element in the alternative plan of action would therefore be to encourage the further introduction of such schemes. The means of doing so might be summarised as follows:

— *persuasion*. A positive effort can be made, through all appropriate public relations media, to encourage employers to set up their own schemes and to provide any necessary advice and assistance. It would be emphasised in particular that obligations under the long-service payment provisions may be offset against benefits payable under an approved provident or retirement scheme. The establishment of such a scheme is thus an effective means for employers to make provision to meet long-service payment obligations.

— *administrative measures*. Contributions to provident and retirement schemes are already deductible for profits tax purposes. Administrative procedures will, however, be kept under review to ensure that company schemes receive approval from the Inland Revenue Department without delay.

— *legislation*. Legislation could if necessary be considered to require the establishment of schemes in companies employing more than a specified minimum number of employees. The scope and impact of such legislation would, however, require very careful assessment if the disadvantages of a centralised and compulsory scheme were to be avoided.

Summary

64. In drawing together the threads of the above discussion, the following broad themes have emerged:

(*a*) A CPF would, depending upon the amount and period of contribution, provide some degree of retirement provision for those who have been in employment, but would not be of significant benefit to those most in need, namely those who have been unable to work, have worked only irregularly or who have been on a low wage.

(*b*) Accordingly, a CPF would be unlikely to result in a significant reduction in the burden of claims under existing social security provisions.

(*c*) A CPF would provide a more comprehensive system of retirement provision (for those able to contribute over an extended period) without the adverse effect upon labour mobility inherent in provisions linked to length of service with a single employer.

(*d*) The concept of a contributory social security scheme could be said to be in accord with a general policy of encouraging self-reliance. It could be argued equally, however, that the compulsory nature of a CPF discourages self-reliance by removing the individual's freedom of choice in providing for his future needs.

(*e*) A CPF could provide a source of funds to meet Government's borrowing requirements, but there is no need for such a facility and its existence would be a disadvantage if it created pressure to finance less worthwhile projects.

(*f*) In certain circumstances, Government might find itself under pressure to 'top up' the benefits available from a CPF or to subsidise its operating costs.

(*g*) The balance of the economic arguments is against the introduction of a CPF. The immediate result would be to increase employers' labour costs and to reduce employees' take-home pay, the effect being the same as an increase in the rates of profits and salaries tax. This would have an adverse impact (the extent depending upon rates of contribution and the circumstances of individual employers and employees) upon levels of economic activity and employment and upon business confidence generally. The immediate adverse effects may tend to work themselves out over time, but the transitional period would be lengthy and the setback to economic growth might never be recovered.

(*h*) The introduction of a CPF would have a major impact on financial markets in Hong Kong. If a sizeable proportion of the fund were to be invested in foreign currency assets, there could be considerable disruption to the foreign exchange and money markets. This would take the form of unsettling pressures on the exchange value of the Hong Kong dollar and on interest rates and might necessitate greater involvement of the Exchange Fund in order to restore and maintain monetary stability. If investment were restricted to the domestic market, there are insufficient first class Hong Kong dollar assets to absorb the volume of funds likely to be available.

(*i*) The reaction of employers to any proposal to introduce a CPF is likely to be negative, particularly in view of prevailing sensitivity to cost increases. The reaction of employees is more difficult to assess and would depend very much upon rates of contribution, upon the division of the burden between employers and employees, upon individual financial circumstances and preferences as between consumption and saving. Employee reactions are also likely to be influenced by political perceptions.

(*j*) There is already a substantial framework of social provision and of private sector provident schemes in Hong Kong and this weakens the case for a CPF.

(*k*) An alternative to a CPF (as outlined in paragraphs 61 to 63 above) is available. This would comprise the following elements:

(i) emphasis upon the availability here of an increasing range of private savings and investment schemes of interest to the average employee—for example:

— deposits with licensed banks
— unit trusts
— life assurance
— credit unions
— real property
— the stock market

(ii) continued gradual improvement as necessary to the existing framework of social provision—for example:

— broadening of eligibility for long-service payments
— exension of scope of protection of wages on insolvency arrangements
— legislation to protect contributions to private provident funds
— possible improvements to the Public Assistance and Special Needs Allowance Schemes and review of old age benefits

(iii) action to promote the further development of private provident and retirement schemes by means of
— persuasion
— administrative measures
— (if necessary) legislation

Education and Manpower Branch
Government Secretariat
October 1986

Annex

Level of Benefits Payable from a CPF

Introduction

1. The purpose of this Annex is to illustrate in broad terms the levels of benefit for the individual employee provided by a central provident fund at varying rates of contribution over varying periods of time, and to consider what they are worth in terms of providing security for an employee upon retirement. To this end, projections have been made on the basis of combined contribution rates of 10 per cent, 15 per cent and 20 per cent of salary respectively. For purposes of comparison, an indication is also given of the amount of the lump sum which an employee might receive under the long-service payment provisions.

2. The justification for choosing these levels of contribution is that a 10 per cent joint contribution is the level most often suggested by supporters of a CPF in Hong Kong, a 15 per cent joint contribution (split either 5 per cent-10 per cent or 7.5 per cent-7.5 per cent) is a typical level of contribution to existing provident funds and retirement schemes in Hong Kong, and a 20 per cent joint contribution (split 9 per cent-11 per cent) is the level of contribution in the Malaysian CPF, which is a reasonable example of a south-east Asian CPF the benefits of which are confined to a lump-sum payment on retirement. As discussed in para 5 of the paper, the Singapore CPF, with a joint contribution rate of 35 per cent of wages, is an exception in that its range of benefits is wider than would be necessary for a Hong Kong CPF.

Assumptions

3. For purposes of calculation, it has been necessary to make broad assumptions as to real wage increases during the contribution period, real rates of return on investment of the assets of the CPF and the costs of administering the CPF. The following assumptions have been made:

(*a*) A 3 per cent real rise in wage levels is assumed. Wages over the last 15 years have risen in real terms by 2 per cent per annum on average, and a further 1 per cent rise is assumed for increments and promotion during the contribution period.

(*b*) Projections are made on the basis of alternative rates of real return on investment: 2.5 per cent (a rounding up of the 2.37 per cent average real rate of return achieved by the Subsidised Schools Provident Fund over the period 1973-1983) and 4 per cent (which would be an optimistic estimate of return for a scheme of this kind)

(*c*) On the basis of available information about the administrative costs of the Singapore fund, it is assumed that costs would be equivalent to 2.25 per cent of contributions at a 10 per cent contribution rate. At rates of 15 per cent and 20 per cent, the corresponding percentages would be 1.5 per cent and 1.125 per cent. This assumes that higher costs resulting from greater labour mobility in Hong Kong are offset by the greater complexity of the Singapore scheme (which provides for housing and medical benefits). The larger size of the workforce in Hong Kong should enable economies of scale to be achieved, but the effect is difficult to estimate. The level of benefits payable is, however, relatively insensitive to changes in the level of administrative costs assumed.

The models

4. Based on these assumptions, and assuming contribution periods respectively of 40 years, 30 years and 20 years, with a common end-date, the number of months' final salary produced by the CPF at each rate of contribution has been calculated as follows:—

	Number of Months' Final Salary Accruing					
Contribution Period	*40 years*		*30 years*		*20 years*	
Assumed Rate of Return	*2.5%*	*4%*	*2.5%*	*4%*	*2.5%*	*4%*
Rate of Joint Contribution						
10%	43.3	58.2	33.2	41.5	22.7	26.3
15%	65.4	87.9	50.2	62.6	34.3	39.7
20%	87.6	117.6	67.2	83.8	45.9	53.2

Desired level of benefits

5. Inevitably, views on what would constitute a reasonable level of benefit from a CPF are likely to differ. For the purposes of illustration, however, calculations have been made showing the number of months' final salary which would be necessary to purchase an annuity providing the contributor for the remainder of his life with an income equivalent:

(*a*) to 20 per cent of his final salary;

(*b*) to 35 per cent of final salary; and

(*c*) to 50 per cent of final salary.

6. Premia for annuities vary according to the age and sex of the employee, the prevailing rate of interest and the type of annuity contemplated. Actuarial advice has been sought on the premium rates chargeable for both a 10 years certain single premium annuity (which guarantees payment of the annuity for the lifetime of the holder or to his dependants for the balance of the 10 years if the holder dies during this period) and for a life without refund single premium annuity (under which payments end on the death of the annuity holder), on the assumption that the real rate of return on investment is similar to the rates assumed for the CPF Model and that the annuity is payable from retirement. Given that a CPF would be aimed primarily at industrial workers, a retirement age of 65 has been assumed. However, for comparison, premia have also been calculated on the basis of retirement at 60, although it is expected that a rather smaller percentage of contributors to a Hong Kong CPF would retire at this earlier age.

Calculations

7. The results of calculations on the above basis are shown in the tables at Appendix A (life without refund single premium annunity) and Appendix B (10 years certain single premium annuity) attached.

8. It will be apparent from this presentation that the desirability of a CPF scheme from the individual contributor's point of view (in terms of the level and period of contribution required) will depend very much upon the level of benefit which he hopes to secure, his preferred retirement age and the performance of the fund. An example is set out in Appendix C.

Long-service payment

9. Under the long-service payment provisions, which come into effect on 1 January 1986, an employee nearing the end of his working life would, according to the length of his service with a single employer, be entitled to a long-service payment as follows:—

Length of service	*Number of months final salary*
10 years	6.67
18 years or more	12

(The scheme provides for a maximum payment equivalent to 12 months' final salary. At a rate of 2/3 of a month's wages for each year of service, the maximum payment would be attained after 18 years.)

10. It should be noted that in the case of a long-service payment, no contribution is required from the employee. Under a CPF, assuming equal joint contributions, the employee himself will have paid for one half of the benefit.

Appendix A

Life without refund single premium annuity

Yield of annuity	*Number of months final salary needed to purchase annuity*			
	Retirement at 65 Rate of return		*Retirement at 60 Rate of return*	
Male employee:	*2.5%*	*4%*	*2.5%*	*4%*
(i) 20% of final salary	25.7	23.0	32.4	27.4
(ii) 35% of final salary	44.9	40.3	56.7	47.9
(iii) 50% of final salary	64.1	57.5	81.0	68.4
Female employee:				
(i) 20% of final salary	30.0	26.5	35.6	30.8
(ii) 35% of final salary	52.5	46.3	62.3	53.9
(iii) 50% of final salary	75.0	66.2	89.0	77.0

Appendix B

Ten years' certain single premium annuity

Yield of annuity	*Number of months final salary needed to purchase annuity*			
	Retirement at 65 Rate of return		*Retirement at 60 Rate of return*	
Male employee:	*2.5%*	*4%*	*2.5%*	*4%*
(i) 20% of final salary	29.1	26.1	33.3	29.4
(ii) 35% of final salary	50.9	45.8	58.3	51.4
(iii) 50% of final salary	72.8	65.4	83.4	73.5
Female employee:				
(i) 20% of final salary	32.6	28.7	37.3	32.2
(ii) 35% of final salary	57.0	50.2	65.2	56.3
(iii) 50% of final salary	81.4	71.8	93.2	80.5

Appendix C

Example

A male employee earning in year 1 the current average manual wage of $3,130 per month and contributing 5 per cent of his income ($156.50) to a CPF (this contribution being matched by his employee) would after a period of 20 years be entitled to a lump sum equivalent to 22.7 months' final salary (if the CPF achieves real growth of 2.5 per cent) or 26.3 months' final salary (if 4% real growth is achieved). On the basis of the assumptions in paragraph 3(*a*) above about real growth in incomes, final salary after 20 years would come to $5,653 per month and the lump sums to $128,323 or $148,674 respectively. After a further ten years, final salary would be $7,597 per month and the lump sums would be $252,220 or $315,276.

Assuming that the employee invests this lump sum in an annuity, on the 10 years certain basis, payable from the age of 65 for the remainder of his life and offered on the basis of a 2.5 per cent rate of return, he would receive a monthly income equivalent to 15.6 per cent of his final salary ($882) on the basis of the lump sum available after 20 years' contributin or 22.8 per cent of final salary ($1,733) on the basis of the larger lump sum available after 30 years' contribution. If the annuity were offered on the basis of a 4 per cent rate of return, the monthly income figures would be 20 per cent and 31.7 per cent of final salary ($1,138) and $2,412 per month) respectively.

Next Sitting

HIS EXCELLENCY THE PRESIDENT: In accordance with Standing Orders I now adjourn the Council until 2.30 p.m. on Wednesday 20 May 1987.

Adjourned accordingly at twenty-two minutes past Seven o'clock.

Note: The short titles of motions/bills in the Hansard Report have been translated into Chinese for information and guidance only; they do not have authoritative effect in Chinese.

PRINTED AND PUBLISHED BY H. MYERS, GOVERNMENT PRINTER
AT THE GOVERNMENT PRINTING DEPARTMENT, HONG KONG

WRITTEN ANSWER

Written answer by the Chief Secretary to Mr. Desmond LEE's supplementary question to Question 1

The first quarter of 1987 registered a net outward flow of 4 410 people breakdown as following:

January	- 47 069
February	+44 265
March	- 1 606

I must point out, however, that the net outflow figures can only be meaningful over a long period in order to strip out seasonal variations. The high numbers in January and February, for example, reflect the movement over Chinese New Year which fell on 29 January this year.

PRINTED AND PUBLISHED BY H. MYERS, GOVERNMENT PRINTER
AT THE GOVERNMENT PRINTING DEPARTMENT, HONG KONG