

*A Research on the Determinants for  
the Social Assistance Scale  
in Hong Kong and Selected Countries*

*June 1996*

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## EXECUTIVE SUMMARY

1. The level of social assistance is usually set in accordance to some concepts. The principle of subsistence provides benefits to meet the costs for physical survival. The concept of basic needs provides a baseline for maintaining a minimum living standard which covers not only physical but a certain degree of social needs.
2. CSSA Scheme is the core program of the social security system in Hong Kong. It accounted for 30% of social welfare expenditure in 1995 and 2% of our population are receiving the assistance.
3. CSSA is a means-tested and non-contributory social security program aiming at providing cash assistance to bring the incomes of the poor to a prescribed level where their basic and special needs are met.
4. There are three types of assistance payments. The standard rate covers expenses of basic needs. Long term and single parent supplements meet the specific needs of long term CSSA recipients and single parents respectively. Special grants are payable to meet other special needs arising from various circumstances.
5. Subject to income and asset tests, any person who has resided in Hong Kong for one year with income below CSSA prescribed level can apply for assistance. The amount of assistance payable is the difference between the applicant's total income and his/her total needs as defined by CSSA Scheme.
6. The assistance scale is determined by the actual expenses resulted from the Household Expenditure Survey which is conducted once every five years by the Census and Statistics Department. On the other hand, the "basic needs" approach forms the baseline for fixing the rate of assistance.
7. Our findings indicate that the total assistance received by CSSA recipients is *not* sufficient to cover the monthly expenses under the conditions of Hong Kong. In 1995, the monthly income received by the CSSA recipients varied from 29% to 52% of the median monthly household income. This was far below the normal household expenditure within the corresponding group except for the households with five eligible CSSA members.
8. Among all the countries studied, only Denmark provides flat-rate universal assistance which is comparable to the case in Hong Kong whereas the coverage of the UK scheme is similar to the CSSA Scheme.
9. The income and asset limits in Denmark and the UK are higher than that of Hong Kong, whereas such limits in the US and Australia are comparable to the latter. Australia, the UK and US also allow exemptions for a wider range of assets such as the principal home, land and car.

# **A RESEARCH ON THE DETERMINANTS FOR THE SOCIAL ASSISTANCE SCALE IN HONG KONG AND SELECTED COUNTRIES**

## **PART 1 - INTRODUCTION**

### **1. Objective**

1.1 The report on "Review of Comprehensive Social Security Assistance (CSSA) Scheme" published in March 1996 found that the current CSSA benefits are in general adequate to meet the needs of the CSSA recipients and do not justify any real increase. At the request of the Legislative Council Panel on Welfare Services, a research is conducted on the scale of assistance of the CSSA Scheme in Hong Kong and the social security programs in overseas countries.

### **2. Scope of Study**

2.1 This paper consists of three parts. Part I presents the conceptual overview on social security systems. Part II researches on the assistance scale of CSSA Scheme in Hong Kong. Part III studies the rationale for setting the assistance scale in selected countries which offer non-contributory means-tested social security programs.

### **3. Methodology**

3.1 To obtain an overview of the social security systems in Hong Kong and that of overseas countries, related literature are reviewed in both the Legislative Council Secretariat Library and the university libraries.

3.2 For detailed information on Hong Kong, interviews were conducted with the Hong Kong Council of Social Service and academics in Hong Kong. Besides, the Social Welfare Department (SWD) was consulted for the development and policy implications of the CSSA Scheme.

3.3 For information on overseas countries, Internet for the latest development of the worldwide social security programs was searched. In addition, questions were drafted and faxed to the corresponding government departments and the International Social Security Association for assistance. Three countries have responded to our request so far.

## **PART 2 - CONCEPTUAL OVERVIEW ON SOCIAL SECURITY SYSTEMS**

### **4. Definition of Social Security**

4.1 According to the International Labour Office (ILO) and the International Social Security Association (ISSA), social security refers to the provision of financial aid by a Government in defined circumstances, e.g. old ages, death, disablement, sickness, maternity, work injury, unemployment and large families.<sup>1</sup>

4.2 Social security programs can be categorized into contributory and non-contributory programs. The former requires regular payment to the scheme by the public or employers whilst the latter is being financed by the government. Assistance provided under contributory programs may be earnings-related or subjected to a flat rate whereas assistance provided under non-contributory programs may be subjected to the means and needs of the recipients (means-tested) or a universal rate is applied.

### **5. Concepts for Social Security Systems**

5.1 Paragraphs 5.2-5.7 provide some concepts for establishing social security systems.

#### Principle of Subsistence

5.2 According to the principle of subsistence, the payment of benefits is only sufficient to obtain the minimum necessities for maintenance of merely physical efficiency.<sup>2</sup> Although allowance is made for clothing, fuel and some other items, the amount is so small that food accounts for the greatest share of subsistence.

#### Concept of Basic Needs

5.3 Basic needs is a relative concept which varies among countries in light of levels of development, climatic conditions, social and cultural values.

5.4 The concept of basic needs can be seen as an enlargement of the subsistence principle. It does not only cover physical needs but also some access to social services which are universally regarded as essential to a decent life.

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<sup>1</sup> Social Welfare Department, Green Paper - "Help for Those Least Able to Help Themselves", A Program of Social Security Development, November 1977, pp.2

<sup>2</sup> Peter Townsend, *The International Analysis of Poverty*, Harvester Wheatsheaf, pp.30

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### Relative Poverty<sup>3</sup>

5.5 The European Union has defined the poor as 'persons, families and groups of persons whose resources (material, cultural and social) are so limited as to exclude them from the minimum acceptable way of life in the Member State in which they live.' The excluded are defined as those whose incomes falls below 50% of average disposable income in that country.

5.6 In 1984, the ILO recommended that 'the long-term aim should be to ensure that the minimum benefits paid to those not at work should provide a level of living of at least half the average net disposable income per head.'

### Minimum Standard of Living

5.7 Minimum standard of living can be defined in terms of satisfaction of a minimum bundle of basic needs such as health, education, and nutrition. The minimum standard of living can be expressed alternatively in terms of a summary indicator of welfare - a minimum consumption expenditure or income.<sup>4</sup>

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<sup>3</sup> "A Measure of Dignity, Report on the adequacy of public assistance rates in Hong Kong" Stewart MacPherson, Department of Public and Social Administration, City Polytechnic of Hong Kong, June 1994, pp.5

<sup>4</sup> The Gender and Poverty Nexus: Issues and Policies, M.G. Quibria, Asian Development Bank, Economics and Development Resource Centre, November 1993, pp.3

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**PART 3 - ASSISTANCE SCALE OF CSSA SCHEME**
**6. Social Security System in Hong Kong**

6.1 Hong Kong has a non-contributory social security system, among which some programs are means-tested and provide a flat rate universal assistance.

**Table 1 - Social Security Schemes in Hong Kong**

Programs	Means-tested	Non means-tested	Flat-rate universal	Eligible recipients
CSSA Scheme*	✓			Any person whose income and resources are below the prescribed CSSA level.
<b>Social Security Allowance Scheme</b>				
Normal Old Age Allowance	✓		✓	Any person aged 65-69.
Higher Old Age Allowance		✓	✓	Any person aged 70 or above.
Normal Disability Allowance		✓	✓	Any severely disabled person.
Higher Disability Allowance		✓	✓	Any severely disabled person who requires constant attendance and not residing in government or subvented institutions.
<b>Accident Compensation Schemes</b>				
Emergency Relief Services Allowance*		✓		Any victim of natural and other disasters.
Criminal & Law Enforcement Injuries Compensation Scheme*		✓		Any person injured, disabled or killed due to crime of violence or law enforcement.
Traffic Victims Assistance Scheme*		✓		Any victim of traffic accident.

Remarks: \* indicates some assistance are offered at flat rate.

Source: The Five Year Plan for Social Welfare Development in Hong Kong - Review 1995

Comprehensive Social Security Assistance Scheme

6.2 This is a means-tested program which provides cash assistance to financially vulnerable individuals and families so as to bring their income up to a prescribed level where their basic and special needs are met.

6.3 This scheme covers the essential expenditure and cost of accommodation of a household. It also provides special allowances to cover individual needs of the elderly, disabled, children and single parents. An annual supplement is also paid to the long term CSSA recipients for the replacement of durable goods. Special payments are also provided to cover other expenses arising from different circumstances.

### Social Security Allowance Scheme

6.4 This scheme provides the severely disabled and the elderly with financial assistance to meet the special needs arising from disability or old age.

6.5 Any person who is severely disabled, regardless of age, is eligible for normal disability allowance. Those severely disabled persons who requires constant attendance from others in their daily life but are not receiving such care in a government or subvented institution are entitled for a higher assistance rate.

6.6 Old Age Allowance is designed for people aged 65-69. A higher rate is payable to persons aged 70 or above.

### Accident Compensation Schemes

6.7 This Scheme provides speedy financial assistance to victims or their dependants in case of accidents or disasters. There are three types of programs under this scheme. Victims of natural and other disasters are entitled for the Emergency Relief Services Allowance. Persons who are injured, disabled or killed by law enforcement officers in the execution of their duties, or as a result of a crime of violence are eligible for the Criminal and Law Enforcement Injuries Compensation Scheme. Any person who is a victim of a traffic accident can apply for cash assistance under the Traffic Accident Victims Assistance Scheme without regard to the means of the family or to the element of fault in causing the accident.

## **7. CSSA Scheme in Hong Kong**

### Objective of CSSA Scheme

7.1 CSSA Scheme is the central pillar of the social security system in Hong Kong. It provides a single safety net for those who cannot support themselves financially. CSSA is a means-tested and non-contributory scheme aiming at providing cash assistance to individuals or families to bring their income to a prescribed level where their basic and special needs are met.

### Development of PA/CSSA Scheme

7.2 In the 1950s and 1960s, people in financial hardship received assistance in kind. It was not until April 1971 when the Public Assistance (PA) Scheme was introduced, the assistance was provided in cash and covered food costs only. Over the years, the scheme has been enhanced to satisfy various needs of PA recipients.

## 7.3 The enhancements include the followings:

<b>Year</b>	<b>Enhancements</b>
1972	Revised basic rates to cover essential household expenditure.
1977	Extended the scheme to cover able-bodied aged between 15 and 55 years.
1978	Introduced elderly and long-term supplements and provision of disregarded earnings.
1980	Introduced disability supplement for partially disabled.
1988-89	Introduced special grant for children, new-born babies and young persons taking up first job.
1991	Introduced child supplement.

Source: Social Welfare Department

7.4 On 1 July 1993, the CSSA Scheme and Social Security Allowance Scheme was introduced to replace the PA Scheme and Special Needs Allowance Scheme respectively.

7.5 The new CSSA Scheme consolidated the basic rates and supplements (except for long-term supplement) under the PA Scheme and benefits under the Special Needs Allowance Scheme into specific standard rates so as to avoid confusion in applying for benefits under two separate programs. It also abolished the sliding scale for assistance to family members, relaxed the annual permissible limit of absence from Hong Kong and offered a real increase in assistance level from 4% to 37%.

7.6 In 1994, Dr. Stewart MacPherson of City Polytechnic University of Hong Kong (CPUHK) established a "minimum acceptable standard of living" in his report "A Measure of Dignity - Report on the Adequacy of Public Assistance Rates in Hong Kong". The coverage of commodities and services in his survey was wider than that of the CSSA scheme. However, when the Steering Group (SG)<sup>5</sup> was established to review the CSSA Scheme in 1995, another set of baskets of commodities and services was constructed to represent the basic needs for different groups of CSSA recipients; and this is the first time the concept of "basic needs" was employed to determine the baseline for setting the minimum CSSA standard rates.

<sup>5</sup> The SG composed of officials from Social Welfare Department (SWD), Census and Statistics Department (C&SD), Health and Welfare Branch and the Finance Branch.

### Types of Assistance

7.7 There are three major assistance payments catering for different CSSA recipients.

#### *Standard Rate*

7.8 The standard rate covers expenses on basic needs such as food, fuel and light, clothing and footwear, transport and services, miscellaneous and durable goods. A higher rate is established for single person whereas a lower rate is adopted for family members in view of economy of scale among multi-member households.

#### *Special Supplements*

7.9 In addition to the standard rates, two supplements are introduced to meet the specific needs of special groups. *Long-term supplement* is designed to help families who have been receiving CSSA for twelve months or more for major household and durable goods replacements. *Single parent supplement* is paid in recognition of the difficulties which single parents may encounter when bringing up families on their own without the support of spouses.

#### *Special Grants*

7.10 There are twenty-four non-standard allowance payable to meet other special needs arising from old age, disability, personal or family circumstances.

### Rent Allowance

7.11 Rent allowance is payable as a special grant to CSSA recipients to cover the cost of accommodation. It is the actual amount of rent paid, subject to an upper limit of the highest level of rent for a family of that size in public housing.

### Disregarded Earnings

7.12 Disregarded earnings provide some incentives for the CSSA recipients to work since they are allowed to retain their earnings without being offset against CSSA payments.

### Mechanism of CSSA Scheme

7.13 SWD is responsible for administering the CSSA Scheme.

#### *Eligibility*

7.14 In general, a person who has resided in Hong Kong for one year with income or other resources below a prescribed level can apply for CSSA assistance. The asset limit is \$26,650 for a single person and \$17,750 for a member in a family, and the value of real property not occupied by the family is \$13,320 per person.

7.15 For able-bodied unemployed adults, they must register with the Labour Department for job placement.

#### *Level of Assistance*

7.16 There is no fixed assistance level for CSSA recipients. The difference between the household's total assessable income and total needs as prescribed under the CSSA Scheme is the amount of assistance payable.

#### *Scale of Assistance*

7.17 According to the SWD, there is no absolute statement regarding a basic level of living: it varies with values and attitudes, social perception of needs and the living standards within the community.

7.18 In Hong Kong, the scale of assistance is determined by the actual expenditure patterns of the general public and CSSA recipients obtained from the Household Expenditure Survey (HES) conducted once every five years. The actual rate adjusted must lie above the baseline defined by the "basic needs" approach which was discussed in paragraph 7.6.

#### *Inflation Adjustment*

7.19 The standard rates and supplements are adjusted annually against inflation by the Social Security Assistance Index of Prices (SSAIP). This index is computed by the Census and Statistics Department (C&SD) on a monthly basis covering all commodities and services consumed by CSSA recipients. It also takes into account the changes in commodity prices and the weights of items as obtained from HES.

Number of PA/CSSA Cases

7.20 Appendix 1 lists the number of PA/CSSA cases from 1971-1995. When PA was first established, there were 11,240 cases, accounting for only 0.3% of total population. The number of cases increased to 122,062 in 1995, representing 2% of total population. It should be noted that the number of people covered by the scheme is always higher than the caseload since many are family cases.

7.21 Appendix 2 shows the profile of different categories of CSSA recipients. It can be seen that half of the CSSA recipients are single elderly person, 20% are child in a family and less than 15% are adult family members. Further analysis of this profile is found in paragraphs 8.8-8.12.

Public Expenditure on CSSA Scheme

7.22 Table 2 indicates that the proportion of CSSA spending to total social welfare expenditure has increased from 16.5% in 1990/91 to over 30% in 1994/95. This can be attributed to the increase in the number of CSSA cases in recent years and the significant improvement in the payment rates.

**Table 2 - No. of PA/CSSA Cases and Public Expenditure on PA/CSSA Scheme**

Year	No. of PA/CSSA cases <sup>1,2</sup>	Expenditure on PA/CSSA Scheme (HK\$m)	% of PA/CSSA spending to total social welfare expenditure
90/91	67,733	960	16.5
91/92	69,640	1,136	16.4
92/93	77,211	1,409	18.0
93/94	88,634	2,443	26.6
94/95	102,455	3,427	31.3
95/96	117,200	4,236	29.0

## Remarks:

1. As at September of the year.
2. CSSA effective from 1 July 1993

Sources: The Five Year Plan for Social Welfare Development in Hong Kong - Review 1995  
Hong Kong Annual Report 1992,1994,1996  
Social Welfare Department

## **8. Analysis of CSSA Scheme**

### Income and Expenditure Comparison of CSSA Scheme and HES

8.1 As discussed in paragraph 7.1, the objective of CSSA Scheme is to provide cash assistance to the financially vulnerable individuals or families so as to bring their incomes to a prescribed level relevant to the conditions in Hong Kong. SWD is of the view that the standard of living of PA recipients is not lagging far behind that of the general population<sup>6</sup>.

8.2 Table 3 presents the statistics on the 1995/96 estimated monthly income of CSSA recipients relative to:

- the 1995 median monthly household income
- the households with the lowest monthly expenditure in 94/95 HES (below HK\$3,700)
- the largest group among the same size of households whose expenditure amounted to HK\$3,700-HK\$14,760 in 94/95 HES

8.3 Although the monthly assistance received by CSSA recipients is based on the number of eligible CSSA members, it is assumed that the assistance received by the CSSA recipients is not affected by the income of other household members.

8.4 The income and expenditure analysis is confined only to household size, not by recipient categories as it was not possible to obtain further information from SWD. Households with the lowest expenditure and the group with the biggest share of households in 94/95 HES are taken as the reference groups in this analysis.

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<sup>6</sup> White Paper "Social Welfare into the 1990s and beyond", March 1991, pp.37

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**Table 3 - Comparative Analysis of Income of CSSA Recipients and General Public in Hong Kong 1995**

Household size	95/96 Estimated monthly CSSA assistance received (HK\$) <sup>1,2</sup>	1995 Median monthly household income (HK\$) <sup>3</sup>	% share of Monthly CSSA assistance to median monthly household income	Household with the lowest monthly expenditure in 94/95 HES (below HK\$3,700)		Largest group among the same size of households whose expenditure amounted to HK\$3,700-HK\$14,760 in 94/95 HES	
				Average monthly expenditure (HK\$)	Share of households in the corresponding group (%)	Average monthly expenditure (HK\$)	Share of households in the corresponding group (%)
1	2,650	7,500-8,000	33-35	2,402	33.6	7,588	48.1
2	4,400	13,000-15,000	29-34	2,778	7.2	8,754	55.9
3	6,540	15,000-17,000	38-44	2,946	1.9	9,640	57.5
4	8,610	16,500-18,500	47-52	3,188	0.7	10,142	51.0
5 and above	11,210	21,500-23,600	48-52	*	0.4	>10,244	44.0

## Remarks:

1. The assistance provided is based on the number of eligible CSSA Scheme members.
  2. Including standard rate, other supplements, special grant and rent allowance.
  3. Figures ranged from Quarter 1 to Quarter 4 of the year.
- \* Data suppressed due to small sample size.

Sources: Social Welfare Department  
Census and Statistics Department

8.5 The above table shows that the monthly income received by the CSSA recipients ranged from 29% to 52% of monthly median household income. Such percentage is lower among the single member households and higher among the multi-member households.

8.6 The amount received by the CSSA households in 1995/96 is higher than the monthly expenditure of the lowest expenditure groups in HES in 1994/95. However, only the comparison on the one-person households can be seen as significant since the lowest expenditure group accounts for 34% of total number of households in this category, whereas the proportions of the lowest expenditure group among other household sizes account for only a small percentage.

8.7 When comparing the income of CSSA recipients with the majority of households in the corresponding group, the assistance received by CSSA recipients is far below the monthly expenditure of the general public in Hong Kong except families with five eligible CSSA members. CSSA assistance cannot be said as sufficient to cover the average monthly expenses of all CSSA recipients in Hong Kong.

#### Analysis of CSSA Assistance by Recipients Categories

8.8 As indicated in Appendix 2, 54% of CSSA recipients are single persons. Their average monthly assistance amounted to HK\$2,650 in 1995/96 which is higher than the average expenditure of single member households in 1994/95 HES (HK\$2,402). As these figures are compiled in two different years, if the latter is adjusted by inflation factor, the disparity will be very small.

8.9 The single elderly accounts for 80% of single member households (Appendix 2). Their income is just sufficient to cover the *minimum* average monthly expenditure; thus, they can be regarded as the most unfortunate group in the community.

8.10 It should be noted that there is no information on the proportion of CSSA recipients among the poorest HES single member households --- perhaps the majority of this group are CSSA recipients.

8.11 Families with five or more eligible CSSA members benefit the most from the scheme. They receive an amount which is comparable to the average monthly expenditure of 44% of households of the same size in the community. This assistance level matches the EU and ILO standards as discussed in paragraphs 5.5-5.6. However, there is no statistical information on the proportion of CSSA recipients who are among the five member households surveyed.

8.12 It is of great concern that more and more able-bodied adults and children living with their families are applying for social security assistance. Between 1993 to 1996, these two groups have demonstrated a significant increase by 70% from 10,600 to 18,000 for the former, and 57% from 21,600 to 33,800 for the latter.

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**PART 4 - SOCIAL ASSISTANCE LEVEL IN SELECTED COUNTRIES**
**9. Worldwide Social Security Systems**

9.1 Most countries provide social security to the elderly, disabled, widows/widowers and those injured during work. However, fewer countries provide unemployment benefits. According to a survey<sup>7</sup> on 165 social security systems in 1995, 158 countries have programs for old-age, disability and survivors but only 63 countries have programs for the unemployed.

**Table 4 - Social Security Systems by Type of Programs**

Type of programs	Number of countries
Old-age, disability, survivors	158
Sickness and maternity	105
Work injury	159
Unemployment	63
Family allowances	81

Source: Social Security Programs Throughout the World - 1995

9.2 In helping the elderly, disabled and survivors, the majority of the 165 countries have contributory schemes which are earnings-related. However, non-contributory schemes are not that popular: only 24 countries have non-contributory means-tested programs and five have non-contributory flat-rate universal programs.

9.3 Hong Kong is the only place in Asia which has non-contributory, means-tested and flat-rate universal schemes whilst other Asian countries have contributory schemes or public mandatory savings schemes.

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<sup>7</sup> Social Security Programs Throughout the World - 1995

**Table 5 - Social Security Systems by Mode of Payment**

Social security programs	Number of countries
Contributory Flat-rate	18
Contributory Earnings-related	133
Non-contributory Means-tested	24
Non-contributory Flat-rate universal	5
Mandatory Private Pensions	4
Mandatory savings - Public	19
Mandatory savings - Private	5

Source: Social Security Programs Throughout the World - 1995

## 10. Social Security Systems in Selected Countries

10.1 The level of social security payment is equivalent to "basic needs" in this section because the payment level represents the minimum standard of living as expected by a government. Income and/or asset limits also help us to understand the concept of "basic needs" in a particular country since they represent level below which social assistance would be provided by the government.

### Australia

10.2 Australia has a non-contributory and means-testing social security system. Almost all social security benefits are financed by general revenue. Those who meet income and asset tests within favoured categories are provided with income support.

#### *Definition of Basic Needs*

10.3 The Australian government aims to provide benefits for those who cannot earn a livelihood for themselves. It expects a social security recipient to enjoy a *reasonable standard of living* comparable to the lower-income earners.

10.4 While there is no definition on what constitutes a "reasonable standard of living" or the wage level of "lower-income earners", a proxy can be found in the way the Australian government calculates a person's pension. The government has set a benchmark of maintaining the pension at 25% of Average Male Weekly Earnings, a level which has been equalled or exceeded for several years. The pension rate at A\$171.3 (HK\$1,052)<sup>8</sup> per week for a single person is considered to be adequate to maintain a reasonable standard of living in Australia, without being generous enough to provide a disincentive to work.

#### *Means-tested Schemes*

10.5 Australian social security assistance is subjected to income and asset tests.

##### Income test

- a "free area" - this is an amount of money a pensioner can earn without affecting the rate of social security payment. It is currently amounted to A\$47 (HK\$289) per week.
- a deduction of 50 cents (HK\$3) for each Australian dollar earned by the pensioner above the free area. A single age pensioner can have private income up to A\$395 (HK\$2,427) per week before pension entitlement cuts out altogether.

##### Assets test

- The qualifying limits vary with the Consumer Price Index. Major exempt assets include the principal home of the applicant and land around the house used for private purposes not exceeding two hectares, amount paid in advance for funeral expenses or a cemetery plot, proceeds from the sale of a previous home which will be applied within 12 months the purchase of another home etc.

10.6 All the social security benefits are adjusted in March and September according to the Consumer Price Index.

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<sup>8</sup> A\$1= HK\$ 6.144 as at 23 May 1996

### *Merits*

10.7 The way Australia provides social security benefits is viewed by some critics as effective to assist those in greatest needs with a limited amount of resources<sup>9</sup>. Australia's social security expenditure accounts for 8% of Gross Domestic Product (GDP) in 1996.

### *Problems*

10.8 The Australian government has recognized that there is an increasing number of age pensioners and declining number of working taxpayers. This would lead to affordability problems with the welfare system<sup>10</sup>. Such understanding led the Australian government to introduce in 1992 a contributory national superannuation called Superannuation Guarantee for workers which is paid by the employers. It is hoped that the Superannuation Guarantee will ease the burden on the pension system and the taxpayer by supplementing the incomes of the retired.

### Denmark

10.9 Danish society is basically structured on the Scandinavian welfare model. The public sector offers a wide range of free services which is financed primarily via taxation. Redistribution of income is accomplished by social transfer payment (20% of GDP) which aims at keeping the people above the "poverty line". As a result, only 4% of Danish families live below the "poverty line"<sup>11</sup>.

### *Definition of Basic Needs*

10.10 The Danish welfare model is based on the principle that all citizens should enjoy a decent living condition and be guaranteed certain fundamental rights in the event of unemployment, sickness or old age. Social security payment aims to maintain an adequate standard of living and a style of life similar to what they were used to during their working lives<sup>12</sup>.

10.11 The Danish government has adopted the OECD relative income concept in defining its "poverty line"<sup>13</sup>. Thus, the "adequate living standard" of social security recipients in Denmark is relative to that of the population.

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<sup>9</sup> Welfare and Inequality, pp.45

<sup>10</sup> Australia Social Security in a reply to the Research and Library Services Division

<sup>11</sup> Social Policy in Denmark 1995, Ministry of Social Affairs, pp.8

<sup>12</sup> The Welfare State and Beyond - Success and Problems in Scandinavia, pp.60

<sup>13</sup> Social Policy in Denmark 1995, Ministry of Social Affairs, pp.8

### *Means-tested Schemes*

10.12 Under the Social Pensions Act, old-age pension is payable to everyone over the age of 67, and anticipatory pension is payable to people between the ages of 18 and 66 whose working capacity has been permanently reduced by at least one half due to physical or mental disability, or to people over the age of 50, where social circumstances so warrant. For an old-age pensioner and recipient of anticipatory pension, the basic amount will be reduced if the pensioner has any income from work exceeding the deductible amounts.

#### Income test

- The annual deductible amounts in 1995 was DKK117,200 (HK\$154,235)<sup>14</sup> for single pensioners and DKK128,000 (HK\$168,448) for married pensioners. The basic pension will be completely withdrawn if the pensioner's income exceeded DKK191,000 (HK\$251,356) for an individual and DKK202,300 (HK\$266,227) for a couple.

10.13 The payments are adjusted once a year on 1 January by the current rate-adjustment percentage which is fixed in accordance with the actual development of the gross earnings of blue-collar and white-collar workers.

### *Merits*

10.14 The relative method in defining poverty is suitable for comparison and is used by many international comparative studies.

### *Problems*

10.15 The "basic needs" defined in a relative sense can never be satisfied. Growing prosperity of the community would mean an increase in the percentage of the public expenditure expanded on social services as the level of the minimum standard of living rises. This would in turn mean heavier tax burden on the working population<sup>15</sup>.

10.16 The statistically "lowest income group" may not be the ones who need help. They may consist of individuals who are of their own will working part-time and not full time, and who consequently earn a lower income.

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<sup>14</sup> DKK 1 = HK\$1.316 as at 23 May 1996

<sup>15</sup> A Danish factory was paying close to 40% of the workers' wages in direct taxes and another 20% in indirect taxes - Denmark : A Troubled Welfare State, pp.106

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## United Kingdom

10.17 The UK has a dual insurance and social assistance schemes in helping the elderly, disabled and survivors and a compulsory insurance system for the unemployed; however, there is a growing dependency on means-tested social assistance schemes.

### *Definition of Basic Needs*

10.18 The stated aim of the social security system in the UK is "to secure a basic standard of living for people in financial need by providing income during periods of inability to earn (including periods of unemployment), help for families and assistance with costs arising from disablement."<sup>16</sup>

10.19 There is no definition on what constitutes "a basic standard of living" but there has been a tendency in the UK to treat the social assistance rates as the unofficial poverty line. The assistance rates provide a benchmark against which the standards of living and expectations of poor people could be measured<sup>17</sup>.

10.20 The social assistance rates were first set in 1942 by Sir William Beveridge at an "adequate" but "subsistence" level. The rates covered the barest essentials: the cost of food, clothing, fuel, light and household sundries. In addition to the main rates, there were supplementary payments for housing costs and any special needs. A small margin at 6% of total requirements were added to allow for inefficient spending of the payments. Such rates did not allow for the costs of meeting social obligations and needs<sup>18</sup>.

10.21 Since the basis was set, successive governments have not made any attempts to break down weekly benefit rates by anticipated expenditure or needs. The 1976 review of social assistance concluded that "there is no single objective criterion by which the "right" level of scale rates can be fixed for all time"<sup>19</sup>. The Green Paper, Reform of Social Security arrived at a similar conclusion in 1985.

### *Means-tested Schemes*

10.22 The main means-tested benefits in the UK are Income Support, Family Credit and housing benefit. All three benefits use similar rules to assess applicants but the housing benefit has a higher level for resources test.

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<sup>16</sup> Britain 1996: An Official Handbook, pp.414

<sup>17</sup> Managing Poverty : The Limits of Social Assistance, pp.3

<sup>18</sup> The limits of Social Assistance, pp.28

<sup>19</sup> Department of Health and Social Security 1978, pp.38

10.23 Income Support is available to adults who are not in work, or who work fewer than sixteen hours a week, and whose financial resources are below certain levels. Family Credit is a means-tested benefit available to low-paid, full-time workers. Anyone at or below Income Support level also gets the full housing benefit entitlement.

10.24 The Income Support and Family Credit set a limit to the amount of capital a person may be entitled. People with savings or capital worth more than £8,000 (HK\$93,680)<sup>20</sup> are ineligible; savings between £3,000 (HK\$35,130) and £8,000 (HK\$93,680) will reduce the amount received. The asset limit for housing benefit is £16,000 (HK\$187,360).

10.25 The benefit payments were increased with earnings before 1980. Since then, the rates are increased with price index.

#### *Merits*

10.26 Some academics<sup>21</sup> considered the definition of poverty in terms of subsistence levels of living value-free, free of subjective or arbitrary elements and immutable.

#### *Problems*

10.27 The major criticism against the subsistence approach is that it defines an individual's needs by physical needs only. This is a limited conception of human needs, especially when considering the roles men, women and children actually play in a society.<sup>22</sup> The measurement has proved to be problematic since the amount and types of food eaten depend on the social roles people play and their respective dietary customs.

#### United States

10.28 Traditional philosophy in the US says that the individual is primarily responsible for his or her own economic security, the government only plays a residual role. If government assistance is necessary, only a minimum should be paid<sup>23</sup>.

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<sup>20</sup> One pound = HK\$ 11.71 as at 23 May 1996

<sup>21</sup> Rein, M (1970) Problems in the Definition and Measurement of Poverty, in *The Concept of Poverty*, London, Heinemann

<sup>22</sup> *International Analysis of Poverty*, pp.47

<sup>23</sup> *Social Insurance and Economic Security*, pp.22

### *Definition of Basic Needs*

10.29 The concept of basic needs adopted by the US government is close to the subsistence approach used in the UK. The concept is manifested in the way the US government sets the poverty thresholds. The thresholds are derived from a subsistence definition of poverty based on the cost of a nutritionally adequate diet<sup>24</sup>. The US Department of Health and Human Services draws up poverty guidelines which are developed by smoothing the official poverty thresholds for different family sizes.

### *Means-tested Schemes*

10.30 Public assistance programs in the US link eligibility to the poverty guidelines and a minimum guaranteed income level is set for certain categories of population. The main programs are Supplemental Security Income (SSI) and Aid to Families with Dependent Children (AFDC).

10.31 SSI pays monthly checks to people who are 65 or older, or blind, or have a disability and who do not own much or have insufficient income<sup>25</sup>. The minimum monthly income guaranteed in 1993 was US\$434 (HK\$3,359)<sup>26</sup> for an individual and US\$654 (HK\$5,064) for couples. Applicants would receive supplements if their income level falls short of the minimum.

#### Income test

- The first US\$20 (HK\$155) of most income received a month; the first US\$65 (HK\$503) a month earned from working would be disregarded in calculating the payment to individual recipients. Thereafter, SSI payments are reduced by US\$1 (HK\$7.74) for every US\$2 (HK\$15.5) earned.

#### Resources test

- Applicants can have capital or savings up to US\$2,000 (HK\$15,480) for a single person and US\$3,000 (HK\$23,220) for a couple. The following items would be exempted from the resources test: the home and the land it is on; personal household goods and life insurance; a car up to a certain value; burial plots and burial funds up to US\$1,500 (HK\$11,610).

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<sup>24</sup> Welfare and Inequality, pp.225

<sup>25</sup> US Department of Health and Human Services

<sup>26</sup> One US Dollar = HK\$ 7.74 as at 23 May 1996

10.32 Eligibility for AFDC is limited to families with gross incomes that do not exceed 185% of the state's current standard of needs. Under the AFDC program, each state determines its own standard of needs which include an allowance for food, clothing, shelter, utilities, and other necessities.

10.33 The monthly supplementary security income benefits are automatically adjusted each year based on the increase in the Consumer Price Index.

#### *Merits*

10.34 Poverty line is useful in indicating the general dimensions and knowledge of the major groups with inadequate income.

#### *Problems*

10.35 The minimum income approach pays attention to what is lost in terms of income due to disability, old age or sickness. This would mean benefits are likely to be less than "need" for originally low income families. The maximum federal SSI payments were found to be below the poverty line. The payment for an eligible individual as a percentage of the poverty line was at 91% in 1975 and 77% in 1994 (i.e. 9% and 23% below the poverty line respectively). For a couple, the combined benefits as a percentage of the poverty line declined from 106% to 92% during the same period<sup>27</sup>. The subsistence standard adopted by the US is blamed for the existence of a large and growing "underclass" in the US<sup>28</sup>.

## **11. Comparative Analysis of Social Security Systems in Hong Kong and Selected Countries**

11.1 Appendix 3 summarizes the findings of our study on the social security systems in Hong Kong and selected countries. It can be noted that all social security systems are designed to provide a minimum standard of living for the poor. The scale of assistance is set to meet the basic needs of households. The rate adjusted each year is usually based on the changes in price index.

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<sup>27</sup> Social Insurance and Economic Security, pp.437

<sup>28</sup> Welfare and Inequality, pp.219

## **PART 5 - SUMMARY OF FINDINGS**

12.1 CSSA Scheme is the core social security system in Hong Kong, accounting for 30% of total social welfare expenditure. There are 2% of population receiving the assistance, and the amount received ranged from 29% to 52% of median monthly household income. The more the CSSA eligible members are in a household, the higher is the percentage of CSSA assistance to median monthly household income.

12.2 CSSA is found to be *not* sufficient to cover the average monthly expenses for all households (except families with 5 or more eligible CSSA recipients) living in Hong Kong. The situation is particularly acute for the single elderly group which accounted for half of the total CSSA recipients.

12.3 The main difference between CSSA Scheme in Hong Kong and the systems of the selected overseas countries is that the income and asset tests in the former is more restrictive than the latter. In Hong Kong however, income and asset tests vary according to the number of eligible CSSA recipients in a family: the larger is the number of CSSA eligible members, the higher is the income and asset level. Thus, the income and assets allowed for single person households under the CSSA Scheme is very limited. Whereas in overseas countries, asset tests is made with reference to a household.

**Appendix 1 - Number of PA/CSSA Cases 1971-1995**

<b>Year</b>	<b>No. of PA/CSSA cases</b>	<b>% of PA/CSSA cases to total population</b>
1971	11,240	0.3
1972	16,678	0.4
1973	22,784	0.5
1974	35,610	0.8
1975	54,444	1.2
1976	50,813	1.1
1977	47,671	1.3
1978	47,333	1.0
1979	46,334	0.9
1980	45,274	0.9
1981	46,593	0.9
1982	48,548	0.9
1983	53,785	1.0
1984	58,235	1.1
1985	61,925	1.1
1986	62,172	1.1
1987	63,171	1.1
1988	64,224	1.1
1989	65,252	1.1
1990	67,733	1.2
1991	69,640	1.2
1992	77,211	1.3
1993	88,634	1.5
1994	102,455	1.7
1995	122,062	2.0

Sources: Social Welfare Department  
Census and Statistics Department

**Appendix 2 - Estimated Number of CSSA Recipients by Category 1993-1995**

Category of recipients	93/94		94/95		95/96	
	No.	%	No.	%	No.	%
<b>Single person (child)</b>	<b>700</b>	<b>0.6</b>	<b>700</b>	<b>0.5</b>	<b>1200</b>	<b>0.8</b>
able-bodied	700	0.6	600	0.4	1100	0.7
50% disabled	#	#	#	#	#	#
100% disabled	#	#	100	0.1	100	0.1
in need of constant attendance	#	#	#	#	#	#
<b>Single person (adult)</b>	<b>11800</b>	<b>10.2</b>	<b>14300</b>	<b>10.7</b>	<b>17000</b>	<b>10.5</b>
able-bodied	4500	3.9	5600	4.2	7300	4.5
50% disabled	2100	1.8	2200	1.6	2900	1.8
100% disabled	4400	3.8	6100	4.6	6000	3.7
in need of constant attendance	800	0.7	400	0.3	800	0.5
<b>Single person (elderly)</b>	<b>57100</b>	<b>48.9</b>	<b>63800</b>	<b>47.6</b>	<b>70200</b>	<b>43.1</b>
100% disabled	10900	9.3	11400	8.5	13800	8.5
in need of constant attendance	4900	4.2	5600	4.2	7400	4.5
Others	41300	35.4	46800	34.9	49000	30.1
<b>Family member (child)</b>	<b>22200</b>	<b>19.0</b>	<b>25200</b>	<b>18.9</b>	<b>34500</b>	<b>21.2</b>
able-bodied	21600	18.5	24600	18.4	33800	20.7
50% disabled	#	#	#	#	#	#
100% disabled	500	0.4	500	0.4	600	0.4
in need of constant attendance	100	0.1	100	0.1	100	0.1
<b>Family member (adult)</b>	<b>14100</b>	<b>12.1</b>	<b>16700</b>	<b>12.4</b>	<b>24000</b>	<b>14.6</b>
able-bodied	10600	9.1	12500	9.3	18000	11.0
50% disabled	1000	0.9	1200	0.9	1700	1.0
100% disabled	2100	1.8	2700	2.0	3900	2.4
in need of constant attendance	400	0.3	300	0.2	400	0.2
<b>Family member (elderly)</b>	<b>10800</b>	<b>9.2</b>	<b>13300</b>	<b>9.8</b>	<b>16100</b>	<b>9.9</b>
100% disabled	1400	1.2	1800	1.3	2100	1.3
in need of constant attendance	400	0.3	600	0.4	600	0.4
Others	9000	7.7	10900	8.1	13400	8.2
<b>Total</b>	<b>116700</b>	<b>100.0</b>	<b>134000</b>	<b>100.0</b>	<b>163000</b>	<b>100.0</b>
<b>Single parent</b>	<b>6300</b>		<b>7000</b>		<b>8900</b>	

Remark: # indicate figures less than 50.

Source: Social Welfare Department

## Appendix 3 - Comparative Analysis of Social Security Systems in Hong Kong and Selected Countries

Countries	1994 GNP per capita (HK\$)	Objective of social security system	Disregarded monthly income (HK\$)	Total asset limit	Assistance scale/inflation adjustment
Hong Kong*	168,870	Meet the basic & special needs of the financially vulnerable groups.	\$1,210	<u>Liquidated asset</u> - Single person = \$26,650 - Family member = \$17,750 <u>Other asset</u> - Value of property not occupied by family should be < \$13,320 per person	- Household Expenditure Survey - Social Security Assistance Index of Prices
Australia	140,244	Reasonable standard of living comparable to lower income earners.	\$1,251	- Applicant's principal home and land around - Advanced funeral expenses/cemetery plot - Proceeds from sale of a previous home which will be applied within 12 months for the purchase of another home.	Consumer Price Index
Denmark	219,258	Adequate standard of living with lifestyle similar to normal working life.	- Single pensioners = \$12,853 - Married pensioners = \$14,037	Nil	Gross earnings of working population.
UK	143,598	Basic standard of living.	Nil	- Income Support and Family Credit Scheme < \$93,680 - Housing Benefits < \$187,360	Price Index
US	201,708	Subsistence level of living.	SSI - \$658 AFDC - <185% of gross income of individual state	<u>Liquidated asset</u> - Individual = \$15,480 - Couple = \$23,220 <u>Fixed asset</u> - Home and land, life insurance, car at a certain value, burial plots or funds < \$11,610	Consumer Price Index

Remarks: \* indicated GDP is applied.

Sources: The World Bank Atlas 1996

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