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For Discussion
on 9 July 2001

LegCo Panel on Welfare Services
Financial Support for Older Persons

PURPOSE

This paper examines the financial disposition of the elders in Hong Kong and the arrangements for providing financial support for elders in overseas countries. Through this examination, we have identified some potential problem areas which need to be addressed and remedied.

FINANCIAL DISPOSITION OF CURRENT AND NEXT GENERATION OF OLDER PERSONS

2. We have conducted a survey on the current generation (aged 60 and above) and the next generation (aged 45 to 59) of older persons in Hong Kong in the summer of 2000 to obtain a better understanding of their socio-demographic profile, health condition and financial disposition. 2 180 respondents of age 60 or above and 1 867 of age 45 to 59 were surveyed. While a report on the overall findings of the survey has been published by the Census and Statistics Department, a more detailed analysis of their economic profile is presented below –

The current generation of older persons

Income

3. The survey results corroborate our observation that family is still the main provider, with 58% of older persons receiving contributions from adult children, averaged at $2,300 a month. A small number of older persons also received contributions from other family members.

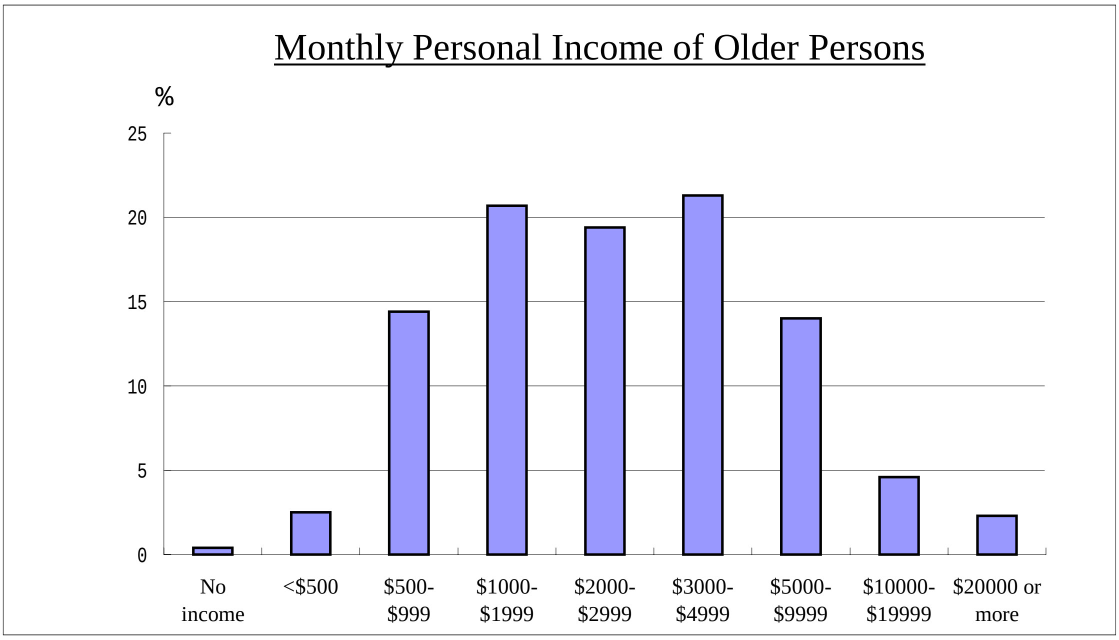
4. Only a small percentage of older persons have a formal source of income like salary (12%). Those still in employment earn a median monthly

income of $6,000. 15% enjoyed retirement benefits, with most of them receiving it as a lump sum on retirement. Very few in fact received regular monthly payments. The lump sum amounts received have a median of $65,000, and are not likely to enable the elders to support themselves for long. Table 1 below shows the various sources of income of the older persons surveyed while Diagram 1 shows their income distribution.

Table 1

Sources of income of older persons	**% of respondents who have this form of income[1]**
Interests from savings/fixed deposits or dividends from stocks	88.7
Financial support from children	58.1
Higher Old Age Allowance	35.5
Normal Old Age Allowance	15.9
Salary	12.4
Pension	4.5
Financial support from relatives	4.5
Rental income	2.4

Diagram 1



[1] The respondents may report more than one source of income.

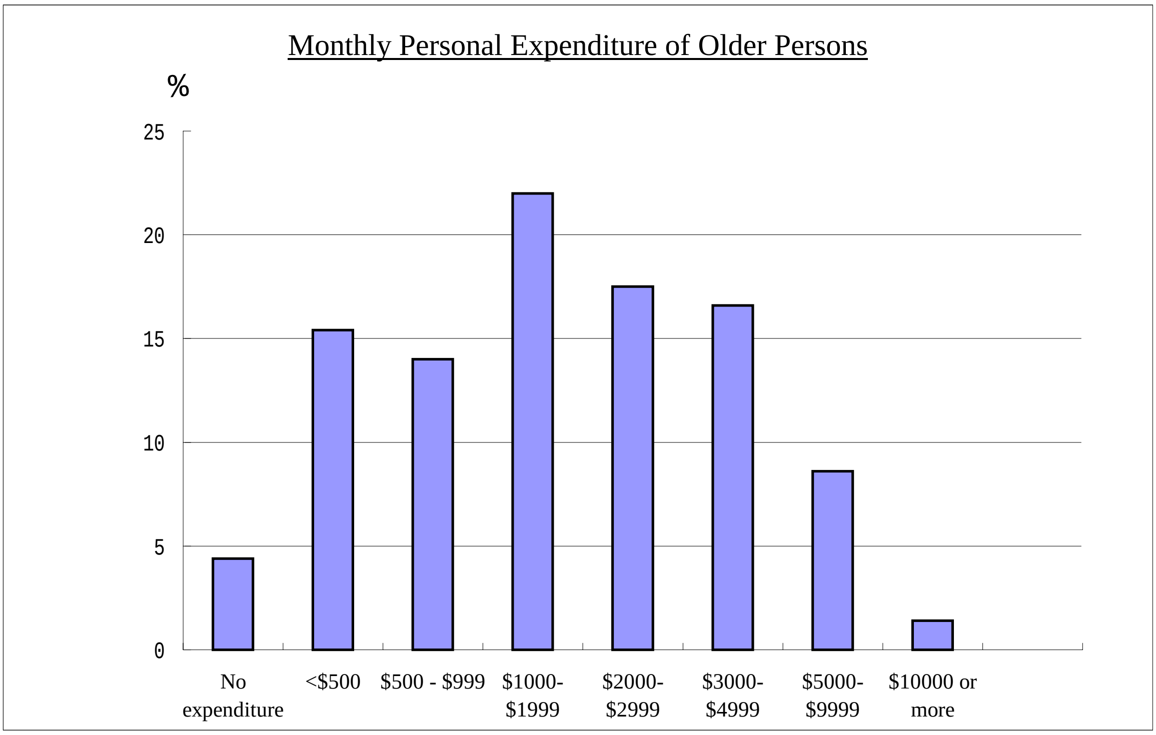
Asset

5. Older persons of this generation do not own much asset in general. About 24% own self-occupied properties and 4% have investments such as stocks and bonds. Although the great majority have cash deposits, the value involved should not be very high as the amount of interest reported to have been received is small.

Expenditure

6. Although the older persons surveyed had limited income, it was found that they did not have to spend much on their own if they lived with family members because part of their expenses would have been met by the family budget. Their expenditure averaged at $1,900 per month (please refer to Diagram 2). Those living separately had to spend more, averaging at $3,000 a month. Most older persons considered their income as sufficient in meeting their expenses.

Diagram 2



The needy elders

7. Although the above findings suggest that most elders considered their income as sufficient in general, we are concerned to note from the survey that a small number of older persons relied on Old Age Allowance (OAA) as their main source of income, despite its relatively modest payment rates, and they received minimal support from their family or none at all.

8. There are other findings which echo our observation that a certain proportion of our older generation live in financial hardships. According to the General Household Survey in the second quarter of 2000, 74% of the households in the lowest income bracket involved elder family members, and most of these households in fact comprised single elders or elder couples.

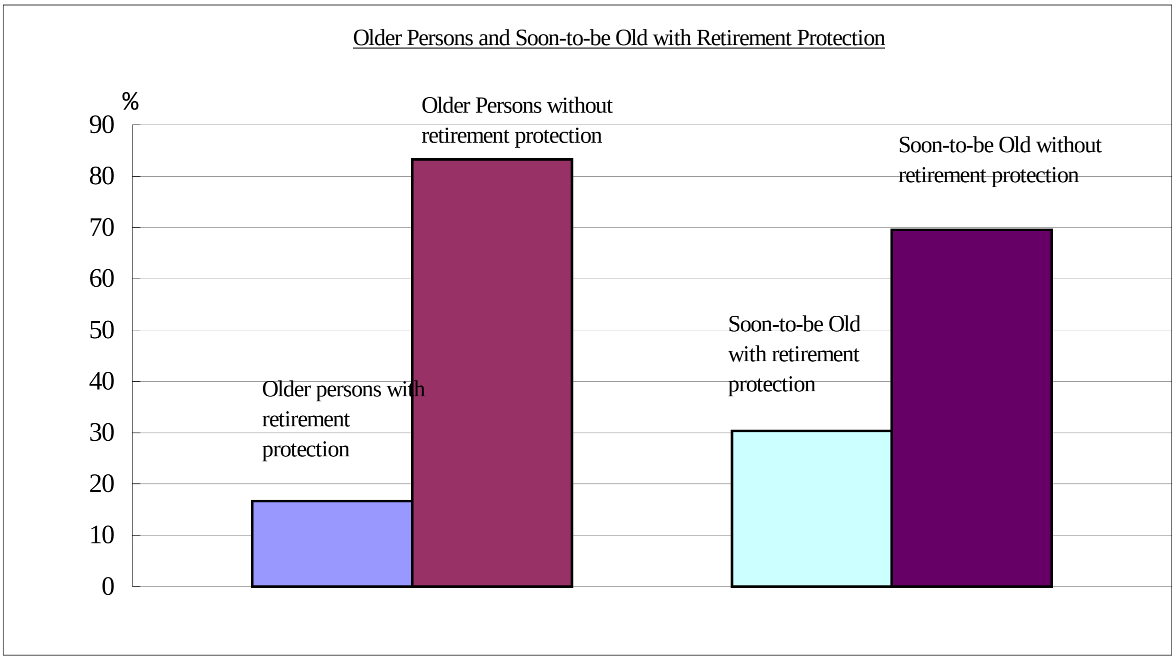
The next generation of older persons

9. From the survey, we have found that the next generation of older persons seems to be financially better off than those of the current generation.

Income

10. We do not know their income post retirement, but 30% are working/have worked with employers who voluntarily provide retirement benefits to their employees as shown in Diagram 3. With the introduction of the Mandatory Provident Fund (MPF) Scheme, most of them should enjoy retirement benefits in one form or another when they retire.

Diagram 3



Asset

11. They are also richer in assets: 37% have self-occupied properties; 11% invest in shares, bonds or unit trusts; and 96% have bank deposits. Judging from the dividend and income from investment reported, we estimate that the average value of their assets, not including properties, should be in excess of $100,000.

The potential problem

12. Although the next generation of elders appears to be financially better off at present, the majority of them (around 67%) have not made any arrangement to meet their future financial needs. While 58% of them indicated that they would rely on financial support from their children after retirement, we note that the family size of the next generation of older persons is getting smaller. 55% of them have only one or two children, and 12% have no child at all.

13. The reduction in family size is expected to have implications on how the soon-to-be-old are going to finance their post-retirement living. We are concerned that there may still be a group in the next generation of older persons who are currently on low income and have few or even no children to support them when they grow old.

INCOME/ASSISTANCE FOR OLDER PERSONS

14. In terms of direct financial support from public resources, elders are currently assisted by the Comprehensive Social Security Assistance (CSSA) and the Old Age Allowance (OAA) schemes while many of the next generation of elders will benefit from the Mandatory Provident Fund (MPF).

Comprehensive Social Security Assistance (CSSA) Scheme

15. Similar to many Chinese societies, the majority of older persons in Hong Kong rely on the family for care and support. For those elders who do not have a family to rely on or whose families fail to give them the necessary support, the CSSA Scheme can provide for their basic and special needs. At present, elder recipients account for about half of all CSSA recipients.

Old Age Allowance (OAA) Scheme

16. On the other hand, the OAA is meant to help elders meet their special needs arising from old age. The original objectives of the OAA were as follows –

(a) to provide financial assistance to families partly to relieve their burden of caring for their older members;

(b) to reduce the demand for institutional care by encouraging families to care for their older members; and

(c) to enable older persons to contribute to the family budget so that they would feel less of a financial burden to their families.

In essence, the scheme is meant to supplement the income of those elders who have family support but, due to various reasons, the support may not be adequate. At present, 58% of elders of 65 or above are receiving OAA.

Retirement Income Provided by the Mandatory Provident Fund (MPF)

17. While the current cohort of older persons may not be able to benefit from the recently implemented MPF Scheme, many of those soon-to-be-old may benefit from it. Nevertheless, the MPF will take some 30-40 years to mature[2] and will have limited effect in the interim. For those of low income, the benefits of MPF are limited even in the longer term.

THE PROBLEM

18. Bearing in mind the forms of financial support mentioned above plus traditional family support, our survey findings (corroborated by anecdotal evidence) have identified a group of older persons in Hong Kong who lack family support or retirement protection, is aware of the CSSA, but does not apply for assistance. They are the target group to whom we wish to offer assistance, in addition to the OAA that they are receiving.

OVERSEAS EXPERIENCE IN FINANCIAL SUPPORT FOR OLDER PERSONS

19. To help us consider ways to address the financial needs of vulnerable elders identified in para 18, we have undertaken a study of overseas experiences in this area.

20. Generally speaking, the early industrialized countries tend to adopt a "risk sharing" and "income re-distribution" approach in drawing up their old age financial protection structures. On the other hand, the approach of "income re-distribution" in retirement protection is relatively less acceptable in many Asian societies. Instead, many of them see family as the primary

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[2] According to information provided by the Financial Services Bureau, the actuarial projections for the design of the MPF System were based on the median income of $10,000, a net annual investment of 1%, and a contribution period of 47 years (18 – 64 years of age). The target income replacement rate was 40%, consistent with the International Labour Organization's recommendation for a multi-pillar retirement protection.

provider for an older person while public assistance is seen as a last resort and at best, a supplement. In these societies, the use of personal accounts in retirement protection is widely accepted.

Different Types of Old Age Financial Protection Programmes

21. There are basically four types of old age financial protection system – namely social insurance, social assistance, social allowance and compulsory savings, classified according to their financing arrangements and the basis on which the benefits are determined.

Social insurance

22. This is a contributory scheme. Contributions come from a percentage of the earnings/payrolls of the work force and will be paid into a common pool for redistribution. Therefore, the contributions are usually regarded as a form of taxation. Most western countries adopt an old age financial protection system of this kind. Social insurance programmes are predominantly pay-as-you-go (PAYG)[3] although they may be pre-funded[4].

23. The benefits paid out are pre-defined. They can be earnings-related or flat-rate. The income redistribution effect is very strong in a flat-rate scheme because the benefits are the same regardless of the recipients' prior earnings and contributions. However, only a small number of countries (such as Japan, UK, Denmark and the Netherlands) have a flat-rate scheme.

24. While social insurance programmes have been widely adopted, more and more countries have found it difficult, if not impossible at all, to sustain because of the ageing population. Lower fertility rates coupled with increasing life expectancy mean that fewer future workers have to support more retirees who also live longer. There are other problems too – for example, the beneficiaries pushing for more benefits, the Government subsidizing with its revenue, and unintended transfers from poor young families to rich retirees. Many countries with social insurance systems suffer from these problems.

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[3] In a PAYG system, the contributions collected from this generation of workers are paid out immediately to this generation of retirees.

[4] In a pre-funded system, the benefits are paid out only after the funds have accumulated for a specific period and only to contributors.

Social allowance

25. This is a non-contributory scheme funded by general revenue. It pays a basic amount (usually modest) to those who meet the age and residency requirement regardless of their means. Countries like Canada, Denmark and New Zealand have social allowance programmes, supplemented by other programmes, for old age financial protection. Therefore, low income elders have to rely on other types of means-tested social assistance as well to supplement their income.

Social assistance

26. Social assistance schemes are also non-contributory. Means-test is applied to determine the eligibility of applicants and/or the level of payments. The Age Pension of Australia is an example of this kind. It is a progressive system, i.e. elders will be means-tested to determine their eligibility and the payment level. Those very well-off do not receive any benefit while those with moderate or little means are paid in a “need-based sliding-scale” manner.

27. The main advantage of a social assistance approach is that resources will be focused on the lower income groups, although some may consider social stigma as a drawback. The means-tested income supplement of Canada, UK and Denmark are also examples of social assistance programmes.

Compulsory savings

28. Under this scheme, contribution is defined and is put into individual accounts. Benefits, however, depend on contributions and investment returns. The Central Provident Fund of Singapore is a well-known model of this kind. Withdrawal of benefits from the account is usually in lump-sum, though annuity payments are regarded as a better alternative. The compulsory-savings approach is becoming increasingly popular in many countries.

29. By tying benefits to contributions and through the use of individual retirement account, there is a strong emphasis on personal responsibility. A disadvantage of this approach is that the benefits are not guaranteed and may not provide adequate protection for extended periods after retirement. A well developed financial market is necessary for developing this approach if the schemes are to be privately managed.

30. The table at Annex A sets out the major old age financial protection programmes of Australia, Denmark, UK, USA, Canada, Japan and Singapore for reference.

World Bank's Three-Pillar Model

31. Each type of old age financial protection structure has its strengths and shortcomings. Therefore, a multi-tier system seems to be able to provide a relatively all-round protection for elders. Many countries are moving towards this direction. In fact, the World Bank has also recommended a three-pillar approach for old age protection -

(a) First pillar of a compulsory public plan for poverty alleviation and prevention

- This pillar provides basic protection to the older population. It can take the form of a universal flat-rate scheme, means-tested benefits, or minimum income guarantee.
- In Hong Kong, the CSSA and, to some extent, the OAA serve this purpose.

(b) Second pillar of a privately managed compulsory pension plan for income maintenance

- This is a wage-related scheme managed by the private sector for retirement savings. Contributions are defined and accumulated in individual accounts with investment returns.
- The recently implemented Mandatory Provident Fund (MPF) Scheme belongs to this kind of arrangement.

(c) Third pillar of a voluntary savings-annuity plan to supplement the two above

- It involves investments in the financial products offered by the market and is meant to provide supplementary sources of retirement income. The target of this pillar is the higher income group who may wish to enjoy a higher standard of living after retirement.

With the MPF scheme now in place as our second pillar, we may need to review our policies to improve the first pillar to provide targeted and enhanced protection to the older persons in need.

ADVICE SOUGHT

32. Members' views are invited on the future retirement protection structures of Hong Kong in the light of the research findings on overseas experiences, and the analysis of the economic profile of Hong Kong's elders.

Health and Welfare Bureau
July 2001

Annex A

Major Old Age Financial Protection Programs in Selected Countries

Major Programs	Australia	Denmark	UK	USA	Canada	Japan	Singapore
Means-tested universal pension	✓						
Means-tested social assistance		✓	✓		✓		
Universal flat-rate minimum pension (social allowance)		✓			✓		
Universal flat-rate social insurance pension		✓	✓			✓	
Supplementary earnings-related social insurance pension			✓				
Compulsory earnings-related social insurance pension				✓	✓	✓	
Compulsory savings public provident fund scheme							✓
Mandatory private pensions (Mandatory occupational pension)	✓	✓					
Voluntary private pensions		✓	✓	✓			✓ (effective April 1, 2001)

First pillar of basic protection

Second pillar of retirement savings