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For discussion on
11 December 2000

LegCo Panel on Welfare Services
Five-in-one Social Security Scheme
Proposed by the Hong Kong Social Security Society

PURPOSE

This paper sets out the Administration's response to the Five-in-one Social Security Scheme proposed by the Hong Kong Social Security Society (HKSSS).

BACKGROUND

2. The Five-in-one Social Security Scheme was presented to the Legislative Council Panel on Welfare Services (the Panel) by Professor Henry Mok of the HKSSS at the meeting on 20 June 2000. Members asked the Administration to examine the proposed scheme and provide a response at a future meeting of the Panel.

OBSERVATIONS

3. The Health and Welfare Bureau has examined the proposed scheme and invited inputs from relevant Government bureaux and public bodies[1]. Some of our observations on the scheme are summarized below.

4. Under the proposal, all employees earning more than $5,000 a month are required to make a contribution of 3% of their salary to the scheme, the employer 4.8% and the Government 2.2%, subject to a cap on the monthly

[1] Including the Financial Services Bureau, Education and Manpower Bureau, Social Welfare Department, Hospital Authority, and the Mandatory Provident Fund Schemes Authority.

income at $50,000. Employees earning less than $5,000 a month are exempted from making contributions but their employers will have to make a contribution as if they were paying their employees $5,000 a month. The combined contributions therefore amount to 10% of an employee's salary, the same as that required under the MPF. There are however the following differences between the two schemes in terms of contributions :

(a) the MPF receives contributions from two parties, the employers and employees; whereas HKSSS' proposal involves contributions from three parties, the employers, employees and the Government (i.e. the taxpayers);

(b) the MPF caps the monthly salary at $20,000 for the purpose of calculation of contribution, whereas the HKSSS' proposal caps the monthly salary at $50,000. It will therefore raise most employers' contribution quite substantially, although their contribution rate at 4.8% is marginally lower than that of the MPF;

(c) under the MPF, employees already enjoying pension or provident fund benefits (some 830,000 people) are exempted from joining the new system. The HKSSS' proposal however requires all these employees to contribute to the new scheme. If the contributions are additional to those already made under the current provident fund arrangement, it would increase the burden on both the employers and employees. Otherwise, the retirement benefits enjoyed by this group of employees would likely be reduced; and

(d) the employees' contribution rate of 3% as proposed in HKSSS' scheme is lower than the 5% rate of the MPF. Nevertheless, as the monthly income cap is raised from $20,000 to $50,000, there will be a re-distribution effect of benefit from the better paid to the lower paid employees.

5. Given the nature of HKSSS' proposed scheme, the benefits payable under it is quite different from that payable under the MPF. Even in terms of retirement protection, they are quite different. Under the MPF, the entire 10% of contribution will accumulate in the employee's individual account, which will be put into investment. The cumulated balance, with return to investment, will be paid to the employee when he becomes 65. Under HKSSS' proposal,

only 2 percentage points of the contribution will accrue in the contributing employee's individual account. Half of the benefits will be paid in the form of a lump-sum when the employee turns 65, with the balance paid out in regular monthly payments over a period of 15 years. The great majority of the contribution (7 percentage points) however will be paid into a central pool from which an old age pension ($3,000 a month) will be paid to all eligible older persons. Comparing HKSSS' proposal with MPF/CSSA/OAA, we have the following observations to make :

(a) the MPF is a defined contribution scheme. The level of benefit drawable upon retirement is dependent on the level of contributions made, and the return to investment. The OPS is however a pay-as-you-go and defined benefit scheme. The amount of benefit payable bears no relationship with the amount of contribution made;

(b) It is implied that the current CSSA for older persons could be replaced by the new OPS when in place. Nevertheless, an older person can receive a higher level of CSSA payment (average at $3,700 a month) than the proposed $3,000 under the OPS. They may suffer financially if the proposal is effected; and

(c) In the first 10 years of the OPS scheme, older persons will be subject to means declaration in their application for benefits. If the OAA is replaced by the OPS, older persons aged 70 or above will be affected.

ASSUMPTIONS

6. Since the OPS is a defined benefit scheme, HKSSS' proposal therefore is a defined benefit as well as defined contribution scheme. In this respect, it is important to examine critically the assumptions underlying the scheme so as to ascertain the robustness of the proposal. It is our assessment that some of the assumptions made in the proposal are over-optimistic which might undermine the viability and sustainability of the proposal, namely :

(a) Number of contributors in working population

- It is calculated that only 373,400 persons, which are those earning less than $4,999 a month, are exempted from contributing to the proposed scheme. But it is estimated by the Mandatory Provident Fund Schemes Authority (MPFA) that around 830,000 persons are exempted from joining the MPF because they have already had different forms of retirement protection. Either the estimate is on the high side, or if no exemption is to be granted to this group of employees, the proposal will be very controversial;

(b) Population growth

- In calculating the number of beneficiaries, the proposal's estimates of the retired population in 2001-2026 is 9% to 17% lower than the estimates made by Census and Statistics Department. Both the assumed fertility rate and mortality rate are also higher than the Government's projection[2]. These assumptions may have led to over-projection of contributors and under-projection of beneficiaries.

(c) Discharge policy of Hospital Authority

- The proposal assumes that 10% of bed occupancy will be saved at hospitals because some older patients may be transferred to Care and Attention (C&A) Homes with the provision of Long Term Care Allowance. However, the Hospital Authority already adopts a policy to encourage older patients to transfer from acute beds to convalescent beds and to provide community and outreach health care services to enable older patients to return home early. It is thus unlikely that such a high percentage of bed capacity can be saved. Moreover, even if savings could be achieved, it would be in the context of sub-acute or infirmary beds, the cost of which will be much lower than that of acute beds ($3,000 per day per bed).

[2] For birth rate, even the lowest birth rate scenario in the proposed scheme is higher than our projection. For mortality rate, the proposed scheme assumes a constant rate throughout 2000-2050 while we see a decreasing trend.

(d) Centralized insurance for the work injured

- The $700 million of employees' compensation projected by the proposed scheme is too low. In 1999, the statutory compensation under the Employees' Compensation Ordinance actually amounted to $1,662 million.

(e) Costs per place at C&A Homes

- The proposed scheme assumes that the cost per place at C&A Homes is $8,000 a month while SWD advises that the cost should be about $9,500 a month. The cost of a nursing home bed would be even higher, at about $14,700 a month. The cost of caring for an infirmed elder in a C&A home is about $15,800 a month.

(f) Costs for Retraining

- Costs of providing retraining courses to the unemployed have not been included in calculating the financial commitment for Employment Retraining Allowance. Therefore, it is expected that the proposed scheme actually involves more financial commitment than it has stated.

It is therefore premature to draw a firm conclusion at this stage that the proposed scheme is financially sustainable in the long term. Some of the assumptions should be revisited.

CONCLUSIONS

7. Whilst the proposed scheme has incorporated some interesting concepts and components of an integrated social security system to provide protection for elders and financial assistance for the needy, the approach has implied significant changes to the MPF system that is being put in place.

8. One of the main components of the proposed scheme, the Old Age Pension Scheme (OPS), was the subject of a public consultation exercise in 1994 when the Government explored options to provide retirement protection for older persons. There were then mixed views expressed on the proposal to set up an OPS. While some members of the public gave support to the proposal, others considered it unfair because of a lack of relationship between benefits and contributions. Some also claimed that the OPS would shift the burden of old age protection from individual/family to society. There was also concern that the OPS does not target assistance at those in need, and there is a question of inter-generational equity. In view of the opinions expressed, there was no clear mandate for the Administration to pursue the OPS.

9. Meanwhile, we have been pursuing various policy initiatives to improve financial protection and care for our elders. For example, the standard rate for CSSA older persons has been enhanced[3] by $398 a month since April 1998. Also, our review of the Old Age Allowance is being undertaken with a view to providing additional financial assistance to the needy elders not on CSSA. We are strengthening our home and community care services to allow the frail elders to continue to age at home.

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[3] There was a real increase of $380 per month for CSSA older persons.