Paper No. CB(2)2568/01-02(01)

**For information** **FCRI(2002-03)9**

# NOTE FOR FINANCE COMMITTEE

## Annual Inflation Adjustment of the Standard Payment Rates under the Comprehensive Social Security Assistance Scheme and the Social Security Allowance Scheme

## INTRODUCTION

This paper informs Members that the Social Security Assistance Index of Prices (SSAIP) [1] registered a further negative change in 2001-02, and that the Administration has decided to maintain the standard payment rates of the Comprehensive Social Security Assistance (CSSA) and Social Security Allowance (SSA) Schemes at their current levels until March 2003, pending a review of the payment rates and related matters.

## BACKGROUND

2. In July 1999, responding to a deflationary situation, Members were informed *vide* FCRI(1999-2000)6 that –

(a) the Administration would maintain the standard payment rates under the CSSA and SSA Schemes at their prevailing levels for 12 months as from August 1999;

(b) the standard payment rates would remain unchanged in subsequent years until inflation caught up; and

/(c) .....

[1] SSAIP measures inflation according to the expenditure pattern of CSSA households. The SSAIP consists of the same items as the Consumer Price Index, except for items which are covered by special grants under the CSSA Scheme (e.g. rent). The SSAIP is compiled by the Census and Statistics Department monthly. In order to ensure that up-to-date expenditure patterns of CSSA households are accurately reflected in the compilation of the SSAIP, it is an established practice to rebase the SSAIP once every five years based on the data from the Household Expenditure Survey on CSSA Households. The SSAIP presented in this Note refers to the 1999/2000-based series.

(c) the past practice of adjusting the standard payment rates according to the forecast inflation for the following year would discontinue. Instead, inflationary adjustments to the CSSA and SSA standard payment rates will be based on actual price movements in the previous year.

3. To implement the above arrangement, the Administration has also agreed to –

(a) put in place an internal procedure to monitor and review the actual SSAIP movement on a half-yearly basis;

(b) consider seeking approval for any inflationary adjustments to the standard payment rates ahead of the annual cycle if recent movements in SSAIP and other economic indicators point to likely high inflation; and

(c) submit an Information Note on an annual basis to the Finance Committee to facilitate its monitoring of this adjustment exercise in the intervening years when the rates are frozen.

4. The CSSA and SSA standard payment rates were revised upwards by 6.5% in 1997-98 and 4.8% in 1998-99 on the basis of the then forecast SSAIP. Taken together, the payment rates have been increased by 11.6%[2]. However, the SSAIP only registered an increase of 4.2% and 0.3% respectively during the period and thereafter has been on the decline. The actual prices, as measured by the SSAIP, fell by 2.7% in 1999-2000 and 1.9% in 2000-01. For two consecutive years since the revised arrangements were put into effect, CSSA/SSA standard payment rates have remained frozen. Members were informed of this decision in June 2000 and July 2001 *vide* FCRI(2000-01)9 and FCRI(2001-02)7 respectively. The last annual review cycle covers the period from August 2001 to July 2002.

**PRICE ADJUSTMENT IN THE COMING YEAR**

5. For the 12-month period from April 2001 to March 2002, the decline in the SSAIP has moderated to 0.5%. Looking ahead, overall consumer prices are expected to remain subdued and there are no signs pointing to high inflation in the coming months. If we were to follow the arrangements implemented since 1999, we should maintain the CSSA and SSA standard payment rates at their current levels for another year in the coming annual adjustment cycle from

/August .....

[2] The percentage is calculated as follows: 1.065 x 1.048-1

August 2002. However, there are public concerns, as discussed below, that against a backdrop of lower prices, wage restraints and unprecedented fiscal pressure, social security payments should not be made immune to deflationary adjustments.

6. Indeed, the combined effect of the upward adjustment up to 1998-99 based on forecast price increases and the continued deflation since then is an over-adjustment to CSSA/SSA standard rates of 12.4%[3]. To maintain their originally intended purchasing power, the current CSSA/SSA standard rates may be reduced by 11.1%[4] from 1 August 2002. This would produce savings of about $1,310 million in 2002-03 ($1,960 million in a full year), estimated as follows –

| | | **Savings from August 2002 to March 2003** |
|---|---|---|
| | | **($ million)** |
| (a) | CSSA standard payment | 880 |
| (b) | SSA standard payment | 430 |

**REVIEW OF CSSA/SSA STANDARD RATES**

7. There has been considerable public concern about the sustained increase in CSSA cases, particularly in the unemployment category, and the pressure on the Government's fiscal position. As at end May 2002, there were 252 675 CSSA cases, representing a year-on-year increase of 9.8%. In the unemployment category, the increase over the 12-month period was 45%, from 23 738 cases to 34 382 cases. With the current unemployment, this trend of increase is likely to continue. In 2001-02, total CSSA expenditure amounted to $14.4 billion, representing an annual growth of 6%. For 2002-03, the approved provision for CSSA payments is $16 billion, representing a further annual increase of 11%. Projecting on the basis of the first two months' expenditure, the approved estimate for CSSA in 2002-03 would be only barely adequate.

/8. .....

[3] The percentage is calculated as follows : 1.116/(1.042 x 1.003 x (1-0.027) x (1-0.019) x (1-0.005)) –1

[4] The percentage is calculated as follows : 1/1.124-1.

8. There have been calls from some quarters for reviewing the levels of CSSA benefit, not only to guard against reliance on welfare becoming a preferred option in light of persistent deflation and prevailing market wages, but also to ensure the use of limited public resources in the fairest and most efficient way to help people in need. On the issue of promoting self-reliance, the Social Welfare Department (SWD) has been pursuing the following initiatives –

(a) implemented a Support for Self-reliance (SFS) Scheme since June 1999 targeting unemployed and low earnings CSSA recipients. The Scheme consists of active employment assistance including referral to NGO-run employment assistance programmes, community work and work incentives in terms of disregarded earnings. Specifically to provide better incentives for work, we have relaxed the eligibility requirements for disregarded earnings. SWD will shortly complete a review of the revised arrangements for disregarded earnings under the CSSA Scheme[5];

(b) to complement the SFS Scheme, lowered the asset limits, reduced standard rate payments for larger households[6], tightened special grants and abolished the long-term supplement payable to able-bodied recipients; and

(c) launched an Ending Exclusion Project for single parent CSSA recipients providing a range of support services and higher disregarded earnings to encourage work[7].

9. Despite the adjustments made to CSSA benefits for able-bodied recipients under paragraph 8(b) above, the comparability of CSSA benefits[8] to the expenditure and earnings of low-skilled labour and low-income families remains a general concern. For example –

/(a) .....

---

5 The disregarded earnings (DE) arrangements were relaxed in July 2000 with Finance Committee's agreement. In that context, the Administration undertook to review the DE arrangements in two years' time.

6 For CSSA households comprising three able-bodied adults/children, the standard rate payment to these members was reduced by 10%. For households comprising more than three able-bodied adults/children, the standard rate payment was reduced by 20%.

7 At its meeting on 1 February 2002, the Finance Committee approved the raising of the maximum level of disregarded earnings for eligible single parent CSSA recipients from $1,805 per month to $2,500 per month.

8 For CSSA families without any earnings, the average monthly payments in 2001-02 are $3,778 for singleton, $6,319 for 2-person household, $8,482 for 3-person household, $10,015 for 4-person household, $11,587 for 5-person household and $14,368 for 6-person or above household.

(a) the average monthly CSSA payment for a 4-person household ($10,015) is comparable and slightly more favourable than the average monthly expenditure of the non-CSSA households in the lowest 20% ($9,490) and lowest 25% expenditure groups ($10,120);

(b) the average monthly CSSA payments for households of three ($8,482) or four persons ($10,015) are higher than the average monthly household income of the lowest 25% income group of same household size ($7,400 for 3-person and $9,100 for 4-person); and

(c) comparing with low-end wages which stand at about $7,000 for selected occupations that do not require special skills, CSSA benefits for a family are close to or more than what the breadwinner in a CSSA family can earn on a job.

10. For both policy and fiscal considerations, the Administration would like to take stock of the situation, assess the effectiveness of current welfare to work programmes and further gauge public opinion on the matter. Accordingly, we consider it prudent to continue to freeze the current standard rates for CSSA and SSA until the end of the 2002-03 financial year. The Administration will consult the Legislative Council on its next steps at an early opportunity.

**ARRANGEMENTS FOR OTHER BENEFITS**

11. Pending the above review, Members may wish to note that no changes have been/will be made to the other payment rates or financial limits under the CSSA/SSA Schemes within 2002-03. These include –

(a) the asset limits of CSSA and the Normal Old Age Allowance (NOAA) under SSA;

(b) the income limits of NOAA;

(c) the maximum level of disregarded earnings which is pegged to the CSSA standard payment rate for a single able-bodied adult;

(d) the maximum levels of rent allowance despite a year-on-year drop in the private housing rent; and

(e) the flat-rate grant on school-related expenses in the coming school year despite a decrease in overall consumer prices based on which this grant is adjusted.

**/FINANCIAL** .....

## FINANCIAL IMPLICATIONS

12. To fully reflect the difference between the price changes and the actual rate adjustment, existing CSSA/SSA standard payment rates should be adjusted downwards by 11.1% from 1 August 2002. Maintaining the payment rates at their current levels means that the Government will have to incur expenditure of about $1,310 million in 2002-03 ($1,960 million in a full year) that could otherwise have been saved. Freezing the other payments as mentioned in paragraph 11 above would likewise involve a part-year implication of $160 million or $230 million in a full year.

## BACKGROUND INFORMATION

13. An explanatory note on the CSSA and SSA Schemes is attached at the Enclosure.

Encl.

--------------------------------------

Health, Welfare and Food Bureau
July 2002

## Social Security System

### Introduction

The social security system provides a safety net for individuals or families who are unable to support themselves financially because of age, disability, illness, low earnings, unemployment or family circumstances. The aim of the Comprehensive Social Security Assistance (CSSA) Scheme is to bring the income of such individuals or families up to a prescribed level to meet their basic and essential needs. The aim of the Social Security Allowance (SSA) Scheme is to help the severely disabled and the elders to meet the special needs arising from disability or old age. A person can receive either assistance under the CSSA Scheme or one of the allowances under the SSA Scheme.

### Eligibility

2. Both schemes are non-contributory. The CSSA Scheme is means-tested. Applicants for SSA are not subject to means test except that persons aged between 65 and 69 applying for the Old Age Allowance have to declare that their income and assets do not exceed the prescribed levels.

3. There are residence requirements for both Schemes. In addition, able-bodied CSSA applicants who are unemployed or working part-time but available for full-time work are required to actively seek work and participate in the Support for Self-reliance Scheme as a condition of receiving assistance.

4. Elderly persons aged 60 or above who have been in receipt of CSSA continuously for three years may join the Portable CSSA Scheme whereby they are allowed to continue to receive their monthly standard payments and annual long-term supplement should they choose to retire permanently in Guangdong.

### Payment

<u>CSSA Scheme</u>

5. The amount of assistance is determined by the monthly income and needs of a family. The difference between the total assessable monthly income of a family and its total monthly needs as recognized under the Scheme in terms

/of .....

of various types of payment will be the amount of assistance payable. When assessing a family's monthly income, earnings from employment and training/retraining allowance can be disregarded up to a prescribed level so as to provide an incentive to work and training/retraining.

6. The Scheme embraces different standard payments to meet the basic and essential needs of broad categories of recipients. In addition, an annual long-term supplement is paid to those who are old, disabled or medically certified to be in ill-health and who have been receiving assistance continuously for more than 12 months for the replacement of household and durable goods. A monthly supplement is also paid to single parents in recognition of the special difficulties they face in bringing up families on their own without the support of spouses. Apart from these standard payments, non-standard payments in the form of special grants are payable to cover rent, water charge, schooling expenses, child care center fees and burial expenses. Recipients who are old, disabled or medically certified to be in ill-health are also entitled to other special grants to meet their special needs such as medically recommended diets and appliances.

<u>SSA Scheme</u>

7. Four allowances are payable under this Scheme as follows –

(a) <u>Normal Disability Allowance</u>

For severely disabled persons who, broadly speaking, suffer from a 100% loss of earning capacity, or who are profoundly deaf.

(b) <u>Higher Disability Allowance</u>

For severely disabled persons who require constant attendance from others in their daily life but are not receiving such care in a government or subvented institution or a medical institution under the Hospital Authority.

(c) <u>Normal Old Age Allowance</u>

For persons aged between 65 and 69 whose income and assets do not exceed the prescribed levels.

(d) <u>Higher Old Age Allowance</u>

For persons aged 70 or above.