

## **LegCo Panel on Welfare Services**

### **The provision of disregarded earnings under the Comprehensive Social Security Assistance Scheme**

#### **OBJECTIVE OF DISREGARDED EARNINGS**

The primary objective of the provision of disregarded earnings (DE) under the Comprehensive Social Security Assistance (CSSA) Scheme is to encourage recipients who can work to find and maintain employment.

#### **BACKGROUND**

2. When the Public Assistance (now CSSA) Scheme was first introduced as a cash assistance scheme in 1971, the recipient's earnings were fully taken into account when assessing the amount of assistance payable. The provision of DE was first introduced in 1978 as an incentive to encourage recipients who were not expected to work (for example, the elderly, single parents with small children) to earn some income so as to become more self-reliant. Employable able-bodied adults were not given such a benefit because even without the provision of DE, they should be working or actively seeking work as a condition of receiving welfare assistance.

#### **DEVELOPMENT OF DE POLICY**

3. Over the years, a number of policy initiatives have been implemented to enhance the provision of DE with the intention of encouraging

CSSA recipients, in particular those who can work, to find work. The major improvements introduced up to March 2002 and DE arrangements before implementation of the latest measures on 1 June 2003 are summarised at Annexes 1 and 2 respectively.

### **NEW ARRANGEMENTS FROM JUNE 2003**

4. The Social Welfare Department completed a review of the provision of DE in September 2002. Based on the findings of the review, there appeared to be a case for providing CSSA recipients with more financial incentives through the provision of DE to find and maintain employment. However, the Administration was mindful of two potential weaknesses in the DE system. First, with more generous DE, there is always the danger that some people may choose to remain on CSSA, topped up with some earnings from a casual, low-paid job, and not make a real effort to achieve true self-reliance. This would increase welfare dependence as well as Government expenditure. In this connection, it should be borne in mind that earnings that are disregarded under the CSSA Scheme are in fact revenue foregone in the sense that if a recipient did not have the benefit of DE, the amount of CSSA payments would be reduced. It is worth noting that the total amount of relevant earnings that were disregarded rose significantly by 119% from \$169 million in 1998-99 to \$368 million in 2002-03. Expenditure on CSSA went up by 24% over the same period. It cannot be proved as a certainty one way or another whether expenditure on CSSA was positively or negatively affected by the substantial increase in revenue foregone that resulted from enhancements to DE.

5. Second, the existence of the provision of DE lifts the CSSA income thresholds for families with employment earnings, thus allowing families with an income that would otherwise be considered sufficient to meet their basic needs to receive CSSA. Raising the level of DE trawls more families into the CSSA net and leads to additional Government expenditure.

6. To strike a balance between maintaining a safety net of last resort for the financially vulnerable and providing financial incentives for employable CSSA recipients to work, the following measures were recommended by the Administration, among other things, in the LegCo Brief titled "The Way

Forward for the Social Security System” issued on 25 February 2003:

- (a) to allow no DE for all categories of recipients in the initial determination of eligibility and in cases which have been on CSSA for less than three months; and
- (b) to raise the maximum level of monthly DE from \$1,805 to \$2,500 and its ‘no deduction’ limit from \$451 to \$600 for all categories of recipients in cases which have been on CSSA for at least three months.

7. With the approval of the Legislative Council in April 2003 of the above measures, we have implemented, on a time-limited basis for three years subject to review, these new DE arrangements since 1 June 2003 as part of the Intensified Support for Self-reliance measures.

8. The DE arrangements effective from 1 June 2003 are summarised at Annex 3.

9. Members are requested to note the information on DE detailed in this paper.

**Health, Welfare and Food Bureau/Social Welfare Department  
March 2004**

**Summary of major improvements to the provision of  
disregarded earnings under the CSSA Scheme  
up to March 2002**

Major improvements to the provision of disregarded earnings (DE) up to March 2002 are as follows:

- (a) extending the provision of monthly DE to able-bodied adults in regular employment<sup>1</sup> in January 1988;
- (b) pegging the maximum level of monthly DE to 100% (previously 75%) of the standard rate for single able-bodied adults in July 1993;
- (c) introducing the provision of total disregard of the first month's income for CSSA recipients not required to seek work as a condition of receiving assistance in April 1995;
- (d) extending the provision of total disregard of the first month's income to employable able-bodied adults in June 1999;
- (e) removing the minimum monthly income and working hours requirements for the purpose of monthly DE for employable able-bodied adults in July 2000; and
- (f) introducing a higher monthly DE for single parents who have been on CSSA for not less than six months in March 2002.

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<sup>1</sup> In this context, an able-bodied adult was in 'regular employment' if he earned no less than a prescribed amount and worked no less than 120 hours a month.

**Disregarded earnings under the CSSA Scheme  
before 1 June 2003**

**(A) Monthly disregarded earnings**

	All recipients except single parents who have been on CSSA for not less than six months	Single parents who have been on CSSA for not less than six months
Maximum monthly disregard	\$1,805	\$2,500
Method of calculation	First \$451 + 50% of earnings above \$451 until the total amount of disregarded earnings reaches \$1,805 <sup>(1)</sup>	First \$451 + 50% of earnings above \$451 until the total amount of disregarded earnings reaches \$2,500 <sup>(2)</sup>

Notes

- (1) Those earning not less than \$3,159 a month can benefit from the maximum monthly disregard of \$1,805 (first \$451 + 50% of earnings between \$452 and \$3,159 = \$1,805).
- (2) Those earning not less than \$4,549 a month can benefit from the maximum monthly disregard of \$2,500 (first \$451 + 50% of earnings between \$452 and \$4,549 = \$2,500).

**(B) Total disregard of the first month's income**

The first month's income earned by a CSSA recipient from a new job is totally disregarded on condition that the recipient has not benefited from this provision during the past two years.

**Disregarded earnings under the CSSA Scheme  
from June 2003**

**Who can benefit from the provision of disregarded earnings?**

All categories of recipients in case which have been on CSSA for not less than three months can benefit from the provision of disregarded earnings.

**Provision of disregarded earnings**

**(A) Monthly disregarded earnings**

Maximum monthly disregard : \$2,500

Method of calculation : First \$600 + 50% of earnings above \$600 until the total amount of disregarded earnings reaches \$2,500

[Those earning not less than \$4,400 a month can benefit from the maximum level of monthly disregard of \$2,500 (first \$600 + 50% of earnings between \$601 and \$4,400 = \$2,500).]

**(B) Total disregard of the first month's income**

The first month's income earned by a CSSA recipient from a new job is totally disregarded on condition that the recipient has not benefited from this provision during the past two years.