FACT SHEET

Historical Development of Retirement Schemes in Hong Kong

1. Introduction

1.1 The purpose of this fact sheet is to provide the Subcommittee to Study the Subject of Combating Poverty with information on the historical development of retirement schemes in Hong Kong.

1.2 In 1995, the legislative framework for setting up the Mandatory Provident Fund (MPF) was established to set the stage for the introduction of retirement protection for the entire local working population. The establishment of MPF was the result of intensive policy debates for almost 40 years on the feasibility of setting up a compulsory retirement scheme in Hong Kong. During the period, the Central Provident Fund (CPF) was the first scheme proposed to provide income security for the retired, followed by the Retirement Protection System, the Old Age Pension Scheme (OPS) and MPF.

2. Proposal to set up a Central Provident Fund

2.1 As early as 1966, the Government embarked on a study of the feasibility of establishing CPF in Hong Kong. The issue was also extensively discussed at a Legislative Council (LegCo) meeting on 13 May 1987[1], but the opinion was generally divided on establishing CPF in Hong Kong.[2] Indeed, the Government did not favour setting up CPF, largely because the volume of funds that would be under centralized control for investment purposes might have a major unsettling effect on the financial, monetary and foreign exchange markets. In addition, the Government considered that the scheme would impose additional costs on employers and could not provide sufficient protection for the retired.[3]

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[1] See Official Records of Proceedings of the Legislative Council (1987), Lui (1998) and Yeh (2004).

[2] At that time, the term "Central Provident Fund" implied a centralized scheme run by a government department or a statutory authority on the lines of the provident fund scheme adopted in Singapore. See the speech by the Secretary for Education and Manpower at the LegCo meeting on 13 May 1987.

[3] See Hong Kong Special Administrative Region Government (1992).

3. Consultation on the Retirement Protection System

3.1 The issue of retirement protection was put on the LegCo agenda again on 10 July 1991, when a motion was moved to urge the Government to *"take immediate steps to re-examine the setting up of a Central Provident Fund or other forms of compulsory retirement schemes in order that workers in Hong Kong are provided with comprehensive retirement protection"*. The motion was voted down by 29 votes to 11.[4]

3.2 Nevertheless, the Government established an inter-departmental "Working Group on Retirement Protection" in November 1991, which was responsible for reviewing options other than CPF that would enable workers to secure better retirement protection. In October 1992, the Working Group issued a consultation paper entitled "A Community-wide Retirement Protection System", in which the Government proposed the introduction of a privately-managed mandatory contributory retirement scheme – the Retirement Protection System – for all full-time employees under the age of 65. However, the Government did not pursue the proposal after public consultation due to little support within the community. In addition, the Retirement Protection System was considered by the Government incapable of helping those outside the workforce and might involve higher risks endemic to privately-managed retirement schemes.[5]

4. Plan to introduce an Old Age Pension Scheme

4.1 The Government proposed to LegCo on 15 December 1993 the adoption of compulsory contributory OPS that would provide a flat-rate monthly pension for all eligible elderly. According to the Government, OPS could better meet the needs of the local community amid a range of options on retirement protection. In particular, OPS could offer the following key advantages over CPF and the Retirement Protection System:

(a) immediate benefits upon implementation, without having to wait 30 or 40 years as in the cases of CPF and the Retirement Protection System;

(b) wider coverage than CPF and the Retirement Protection System, as low-income earners, retirees, housewives and those outside the workforce would also be covered under OPS;

4 See Official Records of Proceedings of the Legislative Council (1991).

5 The risks included the absence of a guaranteed mechanism in the proposed Retirement Protection System, which dealt with benefit losses arising from fraud, theft or poor investment management. See Official Records of Proceedings of the Legislative Council (1995a).

(c) inflation-proof income at a guaranteed basic level, as the retirement income under CPF or the Retirement Protection System would depend on the contributor's income level and be subject to the risk of fluctuating investment returns; and

(d) lower rates of contribution for both employers and employees compared with those required for CPF or the Retirement Protection System.

4.2 The Government subsequently issued a consultation paper entitled "Taking the Worry out of Growing Old – An Old Age Pension Scheme for Hong Kong" in July 1994 to seek public comments on OPS. According to the consultation paper, it was proposed that all eligible residents aged 65 or above would receive a monthly pension equivalent to roughly 30% of the median wage, i.e. HK$2,300 at 1994 price levels. The amount of benefits would be indexed annually to the Composite Consumer Price Index.

4.3 The proposed OPS was to be funded by compulsory contributions from both employers and employees. The suggested contribution rate was 3% of an employee's income to be shared equally between the employee and his or her employer. The Government planned to make a capital injection of HK$10 billion as a start-up fund to finance the set-up cost for the proposed OPS and enable immediate payment of pension to eligible persons.

4.4 The proposed introduction of OPS led to a vigorous debate in the community, and the Government received 6 665 submissions at the end of the OPS consultation period. Views were generally divided on the proposed OPS, with an even split in the number of supporters and opponents. For the supporters, while they supported OPS in principle, many qualified their support on various conditions such as requiring a parallel implementation of MPF and OPS and calling for immediate improvements to the Comprehensive Social Security Assistance Scheme before the setting up of OPS.

4.5 On the other hand, there were also many submissions putting forward a variety of arguments as to why OPS was unsuitable and should not proceed. The major arguments against OPS included:

(a) mixing up the concept of social welfare and retirement protection;

(b) shifting the burden of old-age protection from individuals and families to society;

(c) instituting an unfair scheme under which the pension benefit received was not related to the amount of contribution made. In addition, the flat-rate payment might be inadequate for the poor and superfluous for the rich; and

(d) repeating the failure experienced by the old-age pension schemes adopted in many welfare states.

4.6 In January 1995, the Government announced that it would abandon OPS as the public opinion was too divided on the Scheme. Contributing to the Government's decision also included the lack of support for OPS in LegCo at that time.[6]

5. Implementation of the Mandatory Provident Fund

5.1 Two months after the abandonment of OPS, the Government moved the following motion in LegCo on 8 March 1995: *"That this Council urges Government to introduce as expeditiously as possible a mandatory, privately managed occupational retirement protection system with provision for the preservation and portability of benefits."* According to the Government, while the submissions on OPS were of divided opinion on the Scheme, these submissions indicated that there would be greater public acceptance of a mandatory, privately-managed provident fund scheme, particularly if it could be set up by 1997. In addition, after meeting with Members of LegCo, trade union leaders and representatives of the business community, the Government had the impression that the introduction of MPF would be regarded as a practical way forward to help the retired.

5.2 LegCo voted 28-21 in support of the Government's motion to introduce a mandatory, privately-managed occupational retirement scheme. Subsequently, the Government introduced a bill into LegCo on 14 June 1995 related to the setting up of MPF in Hong Kong. The development of MPF took a further major step with the passage of the Mandatory Provident Fund Schemes Ordinance (the Ordinance) (Cap. 485) by LegCo on 27 July 1995. The Ordinance provides the framework for the establishment of non-governmental mandatory MPF schemes for the purpose of funding benefits for retirement. It was amended in March 1998 and supplemented by subsidiary legislation enacted in April 1998 and May 1999 respectively, which set out the detailed rules governing the operation of the MPF system. The MPF legislation was further amended in 2002 to provide for a number of measures aiming at streamlining the operation of the MPF system and enhancing protection of members of the scheme.

5.3 The Mandatory Provident Fund Schemes Authority was established in September 1998 under the Ordinance to regulate, supervise and monitor the MPF system. After extensive consultation, the MPF system came into operation on 1 December 2000. The MPF system is a privately-managed, employment-related mandatory system of provident fund schemes. Unless exempted, employees aged between 18 and 65 and self-employed persons are required to participate in the MPF schemes.

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[6] See the speech by the Secretary for Education and Manpower at the LegCo meeting on 8 March 1995.

5.4 The MPF system requires joint contributions by employers and employees, each contributing 5% of an employee's relevant income to a registered MPF trust scheme, subject to the minimum and maximum levels of income for contribution. Since the implementation of the MPF schemes, the minimum level of income has been adjusted once in February 2003 when it was raised from HK$4,000 to $5,000 per month. The maximum income level has so far remained unchanged at HK$20,000 per month. A self-employed person also has to contribute 5% of his or her relevant income. The accrued benefits are fully vested in members of the schemes and can be transferred from scheme to scheme when employees change or cease employment. In normal circumstances, benefits must be preserved until a member of the scheme attains the retirement age of 65. However, benefits will be paid before the attainment of retirement age by reasons such as death, incapacity, permanent departure from Hong Kong and early retirement.[7]

5.5 The discussion on the retirement protection schemes continued at LegCo after the implementation of the MPF system in 2000. In a recent motion debate on care for the elderly on 23 February 2005, some Members raised the following concerns about retirement protection provided by the MPF schemes:

(a) limited coverage of the MPF schemes, with the existing elderly, low-income earners and non-employed persons such as housewives being excluded from the protection of the schemes;

(b) meagre protection under the MPF schemes, whereby employees could not rely solely on the schemes as a means of livelihood in their old age. According to the experience of other countries, many similar income support schemes must be added before retirees could enjoy security in their old age;

(c) risk of fluctuating investment returns, as loss-making investment would reduce the amount of retirement income available for employees to fall back on in their old age;

(d) no immediate enjoyment of retirement protection, as retirement protection to the entire workforce would only be available two to three decades later, thereby rendering the imminent retirees unable to benefit from the MPF schemes;[8] and

(e) the need to study the possibility of establishing other retirement protection schemes such as a community-wide retirement protection scheme in view of the above concerns over the MPF schemes.

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7 Only members of the MPF schemes who have attained the age of 60 can receive the benefits due to early retirement.

8 Similar comments were made by the Government on the retirement income provided by MPF. According to the Health and Welfare Bureau, *"the current cohort of older persons may not be able to benefit from the recently implemented MPF Scheme…[T]he MPF will take some 30-40 years to mature and will have limited effect in the interim. For those of low income, the benefits of MPF are limited even in the longer term."*

5.6 In response to the call for retirement protection for the elderly, the Secretary for Health, Welfare and Food stated that *"the Government is planning a series of studies to assess the financial sustainability of the three pillars*[9] *and to look further into the longer-term needs of an ageing population. The Central Policy Unit is prepared to conduct a series of studies, the result of which will be published in due course…[T]he Elderly Commission will also conduct a review in this regard."*[10]

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9 The three pillars were: (i) a compulsory public plan for poverty alleviation and prevention (i.e. the Comprehensive Social Security Assistance Scheme), (ii) a privately-managed compulsory pension plan for income maintenance (i.e. the MPF system), and (iii) a voluntary savings-annuity plan to supplement pillars (i) and (ii).

10 See the speech by the Secretary for Health, Welfare and Food at the LegCo meeting on 23 February 2005.

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