

## **LEGCO PANEL ON WELFARE SERVICES**

### **Annual adjustment of the Standard Payment Rates under the Comprehensive Social Security Assistance Scheme and the Social Security Allowance Scheme**

#### **PURPOSE**

This paper informs Members of the latest position of the Social Security Assistance Index of Prices (SSAIP) and the estimated corresponding adjustment for the standard payment rates under the Comprehensive Social Security Assistance (CSSA) Scheme and the Disability Allowance (DA) of the Social Security Allowance (SSA) Scheme.

#### **THE ANNUAL ADJUSTMENT CYCLE**

2. On 22 July 2005, we presented to the Subcommittee of Review of the Comprehensive Social Security Assistance Scheme the position of SSAIP and timing for the annual adjustment cycle. The adjustment mechanism was based on Director of Audit's comment in his Report No. 32 published in March 1999 that the Administration should adhere to the stated annual adjustment mechanism in future for the administration of the CSSA and SSA Schemes. This comment was made in connection with the problem concerning the discrepancies between the forecast inflation and the actual outturn under the inflation forecast methodology used for adjusting social security payment before 1999. Members generally supported that the standard payment rates of CSSA and SSA should be adjusted regularly on an annual basis, taking into account the inflation/deflation reflected by the SSAIP with the following timing sequence:

- (a) presentation to the Panel on Welfare Services;
- (b) submission to the Finance committee (FC) for approval in December, on the basis of the SSAIP movement for the past 12

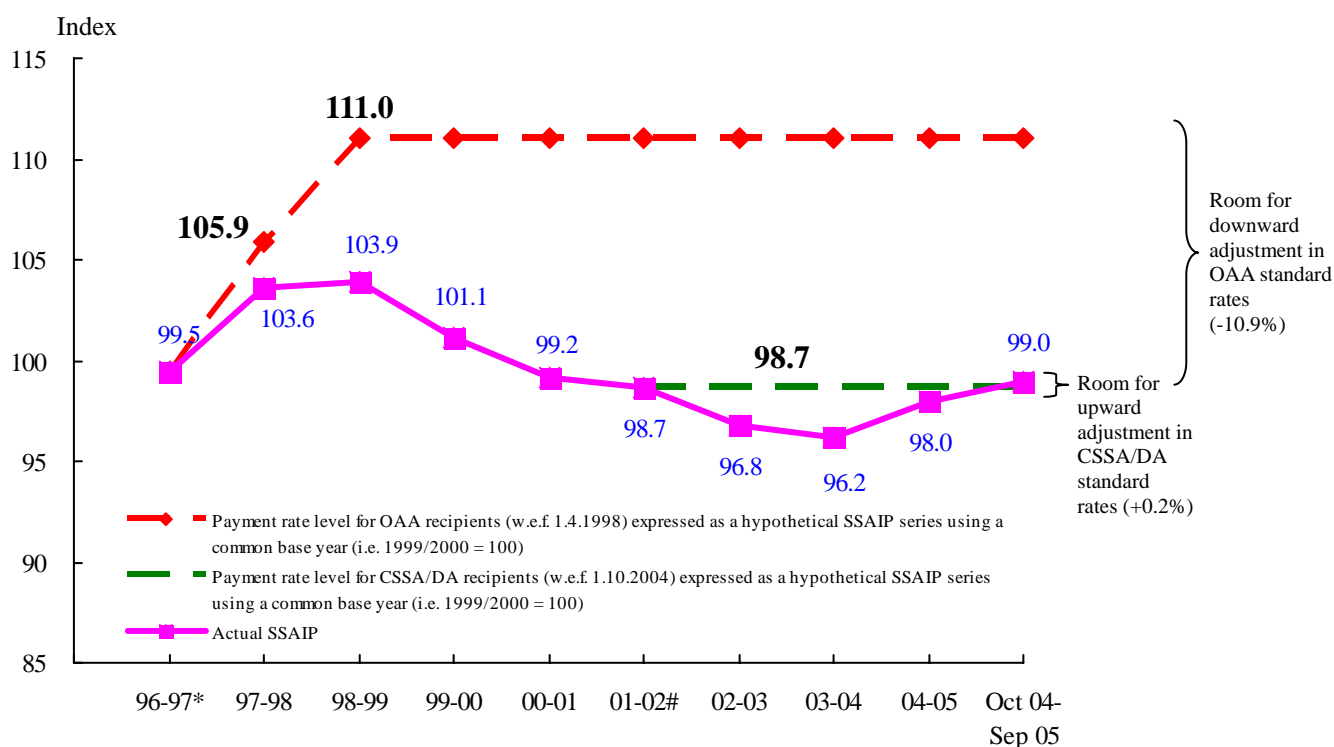
months, i.e. from 1 November to 31 October each year; and

- (c) introduction of the new rates in February to allow sufficient time for the Social Welfare Department to make the necessary adjustment to its computer system to make the adjusted payment to over 650 000 recipients (including 540 000 CSSA recipients and 110 000 DA recipients).

Our proposal to seek delegated authority from the FC for approval to be exercised by the Secretary for Health, Welfare and Food in consultation with the Secretary for Financial Services and the Treasury was however not supported by members present.

3. As at September 2005, the 12-month moving average SSAIP registered a cumulative increase of 0.2% which means that there was scope for an upward adjustment of CSSA and DA rates of 0.2%. The figure for October (which will form the basis for our submission to the Finance committee) will only be available by end November. We expect the SSAIP will continue to edge up mildly.

Chart 1: Room for upward/downward adjustments to the CSSA/SSA standard rates



Notes: \* The prevailing set of CSSA standard rates was determined as a result of the 1996 CSSA Review. Changes in CSSA/SSA rates and price changes since 1996-97 are therefore presented to depict the

room for adjustment to the CSSA/SSA standard rates.

- # Upon effecting the full implementation of the 11.1% deflation related adjustment to the CSSA/DA rates, 2001-02 becomes the base year for measuring subsequent price changes and a horizontal line at the index of 98.7 is therefore extrapolated from 2001-02 indicating the room for further adjustments to the CSSA/DA standard payment rates.

## FINANCIAL IMPLICATION

4. For reference, increasing the standard rates by 0.2% for 540 000 CSSA and 110 000 DA recipients would involve an additional social security expenditure of about \$28 million a year. The current average monthly CSSA payments for different household sizes and that for NDA/HDA are given in the tables below:

Number of eligible member	Average monthly CSSA payments * (November 2004 – October 2005)
1	\$3,458
2	\$5,771
3	\$7,733
4	\$9,094
5	\$10,796

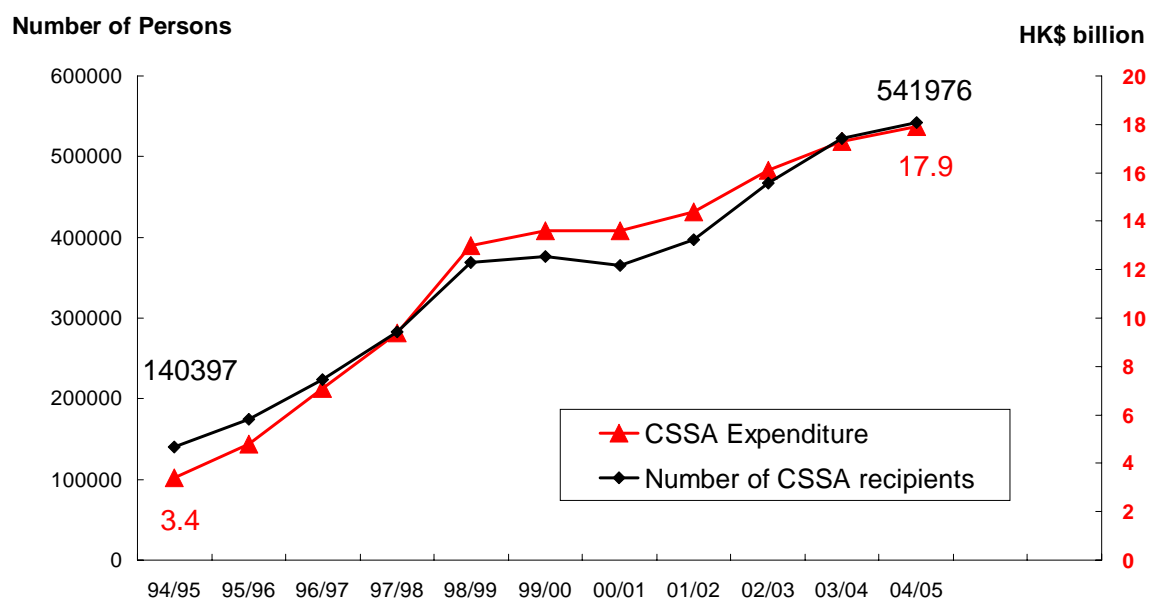
Note: \* Refer to the situation when CSSA cases do not have income other than CSSA payment.

Type of DA	Existing Monthly Rate
NDA	\$1,120
HDA	\$2,240

As the SSAIP changes for the past 12 months ending 31 October will only be available in late November, the exact financial implication and impact on individual CSSA/DA recipients will be available in early December and given in our submission to the FC.

5. Overall, the government expenditure on CSSA increased from \$4.8 billion in 1995-96 to \$18.6 billion<sup>1</sup> in 2005-06. CSSA expenditure as a percentage of total government recurrent expenditure increased from 4.0% to 9.3%<sup>2</sup> over the same period.

Chart 2: Overall CSSA Expenditure and Recipients in the Past Decade



6. Disability Allowance (DA) comprises Normal Disability Allowance (NDA) and Higher Disability Allowance (HDA). At the end of September 2005, there were 111 700 recipients of DA, of whom 14 370 were HDA recipients and 97 330 NDA recipients. Over the past ten years, the increase in DA caseload has been 67%, with the number of NDA recipients rising relatively more sharply. In 2005-06, government expenditure on DA is projected at \$1.68 billion<sup>3</sup>, accounting for 0.8% of total government recurrent expenditure<sup>4</sup>. Expenditure on DA increased from \$915 million in 1995-96 to \$1.68 billion (projected) in 2005-06, representing an increase of 84%.

#### ARRANGEMENT OF OLD AGE ALLOWANCE

7. No adjustment to the Old Age Allowance (OAA), which is the

<sup>1</sup> Approved provision for the year.

<sup>2</sup> The percentage makes reference to the draft estimates 2005-06.

<sup>3</sup> Approved provision for the year.

<sup>4</sup> The percentage makes reference to the draft estimates.

other component (apart from DA) of the SSA Scheme, has been made despite the persistent drop in SSAIP from 1999 to 2003. As a result, there exists room for a downward adjustment by 10.9%. However, we are not proposing to revise the OAA downwards.

### **THE WAY FORWARD**

8. To tie in with the above new annual adjustment cycle, we intend to present the latest available SSAIP figure to FC in December 2005. Should the figure then indicate that the CSSA and DA standard payments rates should be revised, we will seek the necessary approval for new rates with effect from 1 February 2006.

**Health, Welfare and Food Bureau**  
**November 2005**