

For information on
21 June 2007

LegCo Panel on Manpower
Funding Requirements
of the Pneumoconiosis Ex Gratia Scheme

Purpose

This paper informs Members of the proposal to make a funding injection to ensure the financial viability of the Pneumoconiosis Ex Gratia Scheme (the Ex Gratia Scheme).

Problem

2. Given its current financial position and the payment trend, funds for the Ex Gratia Scheme would likely be depleted in early 2008. We need to restore the financial viability of the Ex Gratia Scheme so that it will continue to provide benefits to pneumoconiotics who were diagnosed as suffering from pneumoconiosis before 1981 (the pre-1981 pneumoconiotics). As at the end of April 2007, there were 197 beneficiaries under the Ex Gratia Scheme.

Background

3. When the Pneumoconiosis (Compensation) Ordinance (PCO) was enacted in November 1980 to provide for a statutory compensation scheme on a collective liability basis¹ for persons diagnosed on or after 1 January 1981 as suffering from pneumoconiosis (the post-1981 pneumoconiotics), the Government committed to provide ex gratia payments out of general revenue for the pre-1981 pneumoconiotics. In this connection, the Government allocated \$72.4 million to set up an ex gratia payment scheme to provide one-off ex gratia payments to them. Payments totalling some \$42 million were made out of the scheme.

¹ The scheme is financed by a levy imposed on the construction and quarrying industries.

4. The PCO was amended in 1993 to improve the compensation package for the post-1981 pneumoconiotics. The improved benefits included mainly a change of the basis for assessing compensation and replacement of the lump sum compensation by monthly payments. In line with such improvements, the Government introduced in 1993 a new Ex Gratia Scheme to provide lifelong quarterly payments to the pre-1981 pneumoconiotics. In this regard, the Government made a grant of \$145 million which, together with the \$30 million unspent balance under the former ex gratia payment scheme, was put under a Pneumoconiosis Ex Gratia Fund (the Fund) to support the Ex Gratia Scheme.

5. In 1997, the Government made an additional injection of \$27 million into the Fund for further improvements to the Ex Gratia Scheme so as to bring the benefits broadly in line with those payable under the PCO. The new benefits included reimbursement of medical expenses, payment for pain, suffering and loss of amenities, payment for care and attention and death grant to family members of the pneumoconiotics who died of pneumoconiosis.

6. The range of benefits currently provided under the Ex Gratia Scheme is at Annex 1.

7. Under a Memorandum of Understanding signed by the Government and the Pneumoconiosis Compensation Fund Board (PCFB)², the Labour Department (LD) processes all applications and determines eligibility for payments while PCFB manages the Fund and disburses payments to eligible persons.

Financial Position of the Ex Gratia Scheme

8. The recurrent income of the Ex Gratia Scheme comes from investment of its reserves. The expenditure items comprise ex gratia benefit payments (which account for over 98% of the total expenditure) and administration costs charged by PCFB. In March 2006, LD made an injection of \$9.8 million into the Fund in anticipation of the depletion of the Fund in early 2007. By the end of March 2007, the Fund had a balance of \$12.4 million.

9. Given the trend of income and expenditure (i.e. a deficit of \$12.6 million in 2006-07), the Fund would likely be depleted in early 2008. The income and expenditure of the Fund from 1998 to 2007 are at Annex 2.

² PCFB is a statutory board set up under PCO. The Board was set up to, inter alia, administer the Pneumoconiosis Compensation Fund for the purpose of providing compensation to the post-1981 pneumoconiotics. It was also appointed by the Government as the paying agent for the Ex Gratia Scheme for the pre-1981 pneumoconiotics.

Attributable Reasons of Financial Problem

10. In making an injection of \$27 million in 1997 to fund the improvement items, we projected that there would only be 25 beneficiaries as at the end of 2006, and the Ex Gratia Scheme would have to operate up to 2011 when all the beneficiaries would have passed away. The projection took into account the age profile and average life expectancy of the pre-1981 pneumoconiotics then.

11. Subsequent figures reveal that the beneficiaries enjoyed a longer lifespan than originally envisaged and the actual number of beneficiaries surviving as at the end of April 2007 was 197. The discrepancy is mainly attributable to the following factors:

(a) Basis of projection

The average life expectancy adopted for working out the amount of injection in 1997 was based on very limited operational statistics on deceased pneumoconiotics available at that time³. With more data available, we could now make a more accurate projection of the life expectancy of surviving beneficiaries and hence the size of additional funding requirement.

(b) Improved compensation package

Improvements in benefits under the Ex Gratia Scheme have contributed to the longer-than-expected life expectancy of the beneficiaries. The provision of lifelong quarterly payments and payment for care and attention on a need basis, the supply of respiratory and other medical appliances as well as the reimbursement of medical expenses provide better medical care and more financial resources to improve the health conditions of the pre-1981 pneumoconiotics.

(c) Improved services provided by PCFB

The expansion of PCFB's function in 1996 to conduct rehabilitation programmes for pneumoconiotics also contributes to their better health and quality of life. Since then, the pre-1981 pneumoconiotics have benefited from the active healthcare services and rehabilitation activities organised by PCFB.

³ The Ex Gratia Scheme was set up in July 1993. The amount of injection sought in 1997 was based on the mortality rates of pneumoconiotics who passed away during 1994 to 1996.

12. A comparison of the profile of beneficiaries under the Ex Gratia Scheme in 1997 and 2006 is at Annex 3.

Further Injection Required

13. Based on the age profile and average mortality rates of the pre-1981 pneumoconiotics from 1997 to 2005, the projected expenditure of the Ex Gratia Scheme for 2007 is some \$13 million, falling gradually to about \$0.8 million at money-of-the-day prices by 2039. Under these assumptions, the Ex Gratia Scheme would have to operate up to 2039 to completely discharge the Government's liabilities, and entail expenditure amounting to \$146 million at money-of-the-day prices from 2007 to 2039. With a projected return of investment at 5% per annum, an injection of **\$89 million** into the Fund would be required to enable the Ex Gratia Scheme to continue to provide lifelong benefits to the surviving beneficiaries.

Consultation

14. The Labour Advisory Board was briefed on the funding proposal on 11 May 2007 and Members supported the proposal.

Way Forward

15. The Government will provide the funding to meet the requirement for injection into the Fund. We will seek the funding approval of the Finance Committee of the Legislative Council in July this year.

Labour Department
June 2007

**Benefits provided under the
Pneumoconiosis Ex Gratia Scheme**

- (a) **Payment for incapacity** arising from pneumoconiosis, at a monthly rate of \$1,530, is payable on a quarterly basis until the death of the pneumoconiotic concerned.
- (b) **Payment for pain, suffering and loss of amenities** resulting from pneumoconiosis, at a monthly rate of \$3,180, is payable on a quarterly basis until the death of the pneumoconiotic concerned.
- (c) **Payment for care and attention**, at a monthly rate of \$4,160, is payable on a quarterly basis to pneumoconiotics whose incapacity is of such nature that they are unable to perform the essential actions of life without the care and attention of others.
- (d) **Reimbursement of medical expenses** for medical treatments in connection with pneumoconiosis, subject to a daily ceiling of \$200 for out-patient or in-patient treatment in any one day or \$280 for out-patient and in-patient treatment received on the same day.
- (e) **Supply of approved medical appliances** that are necessary for the incapacity arising from pneumoconiosis.
- (f) **A lump sum death grant** of \$100,000 to family members of pneumoconiotics who die as a result of pneumoconiosis.
- (g) **Reimbursement of funeral expenses**, subject to a ceiling of \$35,000, to any person who has incurred expenses for the funeral of a pneumoconiotic who dies as a result of the disease.

**Pneumoconiosis Ex Gratia Fund
Income and Expenditure from 1998 to 2007**

Year ending 31 March	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007²
Income (\$)	9,372,000	11,147,000	8,535,000	7,244,000	5,007,000	3,083,000	2,535,000	815,000	560,000	691,000
Expenditure (\$)	20,975,000	24,944,000	24,675,000	23,290,000	21,920,000	20,863,000	19,944,000	17,028,000	15,680,000	13,331,000
Deficit (\$)	11,603,000	13,797,000	16,140,000	16,046,000	16,913,000	17,780,000	17,409,000	16,213,000	15,120,000	12,640,000
Balance (\$)	144,681,000	130,884,000	114,744,000	98,698,000	81,785,000	64,005,000	46,596,000	30,383,000	25,063,000¹	12,423,000

¹ An injection of \$9.8 million was made into the Ex Gratia Fund in March 2006.

² Provisional figures.

³ All figures rounded off to the nearest thousand.

**Profile of beneficiaries under
the Pneumoconiosis Ex Gratia Scheme**

Year	1997	2006
No. of surviving beneficiaries at year-end	430	204
Median age of surviving beneficiaries	70	77
No. died during the year	20	22
Median age at death	70.5	78.5