

**For information
on 6 April 2009**

LEGCO PANEL ON WELFARE SERVICES

Subcommittee on Poverty Alleviation

Provision of Disregarded Earnings under the Comprehensive Social Security Assistance Scheme

Purpose

This paper provides information on the provision of disregarded earnings (DE) under the Comprehensive Social Security Assistance (CSSA) Scheme.

Background

2. DE refers to the earnings from employment that are disregarded when assessing the amount of CSSA payable. It is one of the components of the Support for Self-reliance Scheme implemented by the Social Welfare Department (SWD) which assists the able-bodied unemployed CSSA recipients to move towards self-reliance. The provision of DE allows CSSA recipients who work to be financially better off than those relying entirely on CSSA, thus encouraging those who can work to find and remain in employment.

Current DE Arrangements

3. On 1 December 2007, following approval by the Finance Committee of LegCo, SWD raised the 'no-deduction' limit for DE from \$600 to \$800 and relaxed the criteria for allowing CSSA recipients to be eligible for DE from not less than three months on CSSA to not less than two months. The current arrangements of DE are as follows –

- (a) CSSA recipient's monthly earnings can be partially disregarded up to a maximum of \$2,500. The first \$800 of their monthly earnings (the 'no-deduction' limit) and 50% of their remaining monthly earnings are disregarded until the total amount of monthly DE reaches \$2,500 :

Earnings	Level of disregard	Maximum amount to be disregarded
First \$800	100%	\$800
Next \$3,400	50%	\$1,700
\$4,200 or above	The first \$800 and half of next \$3,400	\$2,500

- (b) All categories of recipients in cases which have been on CSSA for not less than two months can benefit from the provision of DE.
- (c) The first month's income from a new job can be totally disregarded on condition that the recipient has not benefited from this provision during the past two years. This provision aims to provide an added incentive for unemployed CSSA recipient to find work.

Examples on the DE arrangements are attached at Annex.

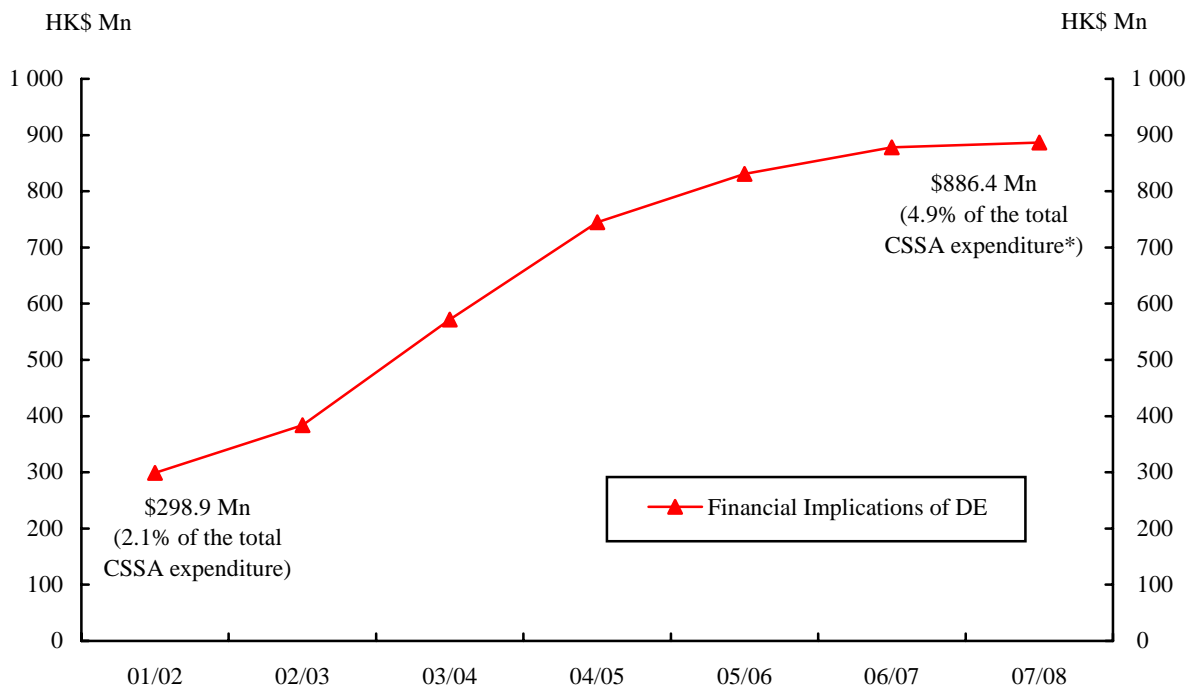
Considerations of DE Level

4. The provision of DE under the CSSA Scheme is a very complex issue. On the one hand, there appears a case for providing CSSA recipients with more financial incentives through the provision of DE to find and remain in employment. On the other hand, more generous DE may render more people eligible for CSSA and delay their exit from the system. We therefore need to strike a balance between providing more financial incentives for CSSA recipients to find and remain in employment, whilst avoiding the DE from becoming a disincentive delaying the exit from the CSSA net.

5. The provision of DE allows the recipients to retain a portion of their earnings, thus ensuring that people who take up paid work are financially better off than those totally reliant on CSSA. That portion of earnings is disregarded and not deducted from the recipients' entitlement in assessing the amount of assistance payable. The total amount of earnings of CSSA

recipients that is disregarded (i.e. the financial implications of DE) has risen significantly over the recent past, because of various improvements on DE and the growing number of CSSA cases involving employable adults benefiting from DE. It soared from \$298.9 million (equivalent to 2.1% of total CSSA expenditure) in 2001-02 to \$886.4 million (equivalent to 4.9% of total CSSA expenditure) in 2007-08, up by \$587.5 million or 197%. Over the same period, by comparison, total expenditure on CSSA went up by 25.3%.

Financial Implications of DE[#] from 2001-02 to 2007-08



Notes: # Including financial implications of monthly DE and that of total DE on first month's income.
 * Total CSSA expenditure for 2007-08 includes one additional month of standard rate payment for CSSA recipients.

6. As at end-January 2009, a total of 36 574 CSSA recipients (i.e. 7.7% of all CSSA recipients) benefited under the monthly DE arrangements. Amongst them, 14 796 recipients (40.5%) benefited from the maximum level of monthly DE.

Specific Issues Raised By Members

7. Regarding the specific points raised by Members on the DE arrangements, our responses are set out below –

(a) Raising the ‘no-deduction’ limit for DE

Raising the ‘no-deduction’ limit for DE would act as a disincentive for CSSA recipients to leave the CSSA net.

(b) Abolishing the ‘no DE for the first two months’ rule

Abolishing the ‘no DE for the first two months’ rule altogether would mean that it is possible for those who are in employment and at income level higher than those currently eligible for CSSA to come under the CSSA safety net. For example, the average monthly CSSA payment for a 4-person family without any income is now about \$9,920. A 4-person family with monthly income of \$9,920 and above is not eligible for assistance under the current arrangement. The proposal would mean that a 4-person family with a monthly income less than \$14,920 (\$9,920 + \$5,000) could qualify for CSSA if two adults of the family work and enjoy maximum DE.

(c) Raising the maximum level of DE

We do not see a case for further raising the maximum level of DE. Before June 2003, the level of monthly DE was pegged to the standard rate for single able-bodied adults. It was then raised by some 40% from \$1,805 to \$2,500. Meanwhile, the current benefit levels for larger households are already appreciably higher than market wages for low-skilled jobs. A higher level of monthly DE will further push the total resources of CSSA families with an employed member further above market wages. For example, if we raise the maximum level of DE from \$2,500 to \$3,500, a 4-member CSSA family would receive \$9,920 (the average monthly CSSA payment) plus \$7,000 (if two employed adults enjoy maximum DE), i.e. \$16,920, which would be far higher than the average monthly income (\$9,500) of a 4-member non-CSSA households in the lowest 20% income group.

8. It is also important to note that the financial implications of various suggestions mentioned above would be on a recurrent basis. We do not consider these to be conducive to the use of limited public resources for those most in need and the promotion of self-reliance in the present circumstances.

9. Members are invited to note the information provided in this paper.

Labour and Welfare Bureau
Social Welfare Department
March 2009

Examples on DE Arrangements

Example 1 : Part A

A 4-member family comprises the unemployed able-bodied applicant, his wife who is a homemaker, and two children aged 16 and 7 respectively. The elder child is a full-day secondary school student and needs to take lunch away from home while the younger child is studying in a half-day primary school. Monthly expenses of the family include rent of \$3,500, water/sewage charges and fares to and from school of \$400 for the two children. The amount of monthly assistance payable to this incomeless family is :

Recognized needs under CSSA :

	<u>(\$)</u>
◇ Standard rates (for an able-bodied adult, a family-carer and 2 able-bodied children)	5,815
◇ Special grants for	
➤ rent	3,500
➤ water/sewage charges	44.8
➤ meal allowance for the student	220
➤ traveling expenses to and from school	400
= Assistance payable	<u><u>9,980</u></u>

(rounded up to the nearest dollar)

Part B

After relying on CSSA for half a year, the applicant finds a full-time delivery job with a monthly salary of \$5,000. Since his first month's income earned from a new job can be totally disregarded, the first month's salary received by him does not affect the amount of assistance payable to the family (i.e. \$9,980). The total monthly income of the family starting from the following month is:

Recognized needs under CSSA :

	<u>(\$)</u>
◇ Standard rates (for an able-bodied adult, a family-carer and 2 able-bodied children)	5,815
◇ Special grants for	
➤ rent	3,500
➤ water/sewage charges	44.8
➤ meal allowance for the student	220
➤ traveling expenses to and from school	400
Total :	<u>9,979.8</u>

Minus

Assessable income :

Monthly income - Maximum amount of DE (i.e. \$5,000 - \$2,500)	<u>2,500</u>
= Assistance payable	<u>7,480</u>

(rounded up to the nearest dollar)

Total family income = Earnings from employment + CSSA payment (i.e. \$5,000 + \$7,480)	<u><u>12,480</u></u>
-------------------------------------------------------------------------------------------	----------------------

Example 2 : Part A

A 3-member single-parent family comprises the mother and two children aged 14 and 12 respectively. The mother is a full-time housewife. The two children attend full-day secondary school and take lunch away from home. Monthly expenses of the family include rent of \$3,200, water/sewage charges and fares to and from school of \$450 for the two children. The amount of monthly assistance payable to this incomeless family is :

Recognized needs under CSSA :

	(\$)
◇ Standard rates (for 1 single parent and 2 able-bodied children)	5,065
◇ Single parent supplement	255
◇ Special grants for	
➤ rent	3,200
➤ water/sewage charges	28.8
➤ meal allowance for the students	440
➤ traveling expenses to and from school	450
= Assistance payable	<u>9,439</u>

(rounded up to the nearest dollar)

Part B

After relying on CSSA for 1 year, the single parent decides to take up a part-time cleansing job in the morning with a monthly wage of \$1,800 since her two children are attending full-day secondary school. As her first month's income earned from a new job can be totally disregarded, the first month's salary received by her does not affect the amount of assistance payable to the family (i.e. \$9,439). The total monthly income of the family starting from the following month is :

Recognized needs under CSSA :

	(\$)
◇ Standard rates (for 1 single parent and 2 able-bodied children)	5,065
◇ Single parent supplement	255
◇ Special grants for	
➤ rent	3,200
➤ water/sewage charges	28.8
➤ meal allowance for the students	440
➤ traveling expenses to and from school	450
Total :	<u>9,438.8</u>

Minus

Assessable income :

\$1,800 - \$1,300 (income disregarded)*	500
*income disregarded: $\$800 + (\$1,800 - \$800) \div 2 = \$1,300$	
= Assistance payable	<u>8,939</u>

(rounded up to the nearest dollar)

Total family income = Earnings from employment + CSSA payment
(i.e. \$1,800 + \$8,939)

10,739