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Legislative Council Panel on Welfare Services
Subcommittee on Retirement Protection

Government Studies on the Retirement Protection Regime in Hong Kong and Other Relevant Information

Purpose

As requested by this Subcommittee, this paper sets out studies conducted by the Administration on the retirement protection regime in Hong Kong and the way forward, as well as relevant data on population and economic projections.

The retirement protection regime in Hong Kong

2. We have, vide LC Paper No. CB(2)534/10-11(01), briefed the Panel on Welfare Services on the retirement protection regime in Hong Kong. In brief, Hong Kong has all along been adopting a three-pillar model for retirement protection: the non-contributory social security system (comprising Comprehensive Social Security Assistance (CSSA), Old Age Allowance (OAA) and Disability Allowance (DA)), the Mandatory Provident Fund (MPF) system and voluntary private savings. This model was adopted in the 1990's after lengthy discussion by different sectors of the community. At present, nearly 80% of elders aged 65 or above are receiving assistance or allowance of different types under the social security system. The percentage of elders aged 70 or above receiving assistance or allowance even reaches 89%. On the MPF front, around 2 510 000 employees and self-employed persons as well as 246 000 employers were participating in MPF schemes as at end-March 2011. The total value of assets accumulated under the MPF system has exceeded $378.2 billion. Together with other retirement protection schemes, 85% of our working population has participated in some form of retirement protection arrangement.

3. Over the years, the Administration has been closely monitoring the operation of the above three-pillar model taking into account socio-economic changes, and has looked into its sustainability and made improvements as necessary.

The ageing population in Hong Kong and economic projection

4. We are aware that Hong Kong, like many other countries/regions, is facing the problems of an ageing population. According to the latest projection of the Census and Statistics Department, the population aged 65 or above will increase from 0.89 million in 2009 to 1.33 million in 2019, 2.06 million in 2029 and 2.49 million in 2039. Their proportion in the population is projected to rise markedly from 13% in 2009 to 28% in 2039. The pace of population ageing will be gradual up to around 2019 (when the proportion will be 17%), accelerating in the ten years to follow (with the proportion in 2029 being 25%) and slackening in the last ten years of the projection period. The population aged 65 or above will increase at an average annual rate of 3.5% throughout the entire projection period from 2010 to 2039, during which the Hong Kong population will increase at an average annual rate of 0.8%. The ageing trend is revealed further by the projected increasing median age of the population from 40.7 in 2009 to 47.6 in 2039.

5. The Administration only produces economic projection up to the medium term. The latest trend economic growth forecast for the period from 2012 to 2015, as announced in the 2011-12 Budget, is 4% per annum. This rate is similar to the trend rate over the past ten years. However, with an accelerated pace of ageing, our labour force is expected to start shrinking after 2020.

6. An ageing population will have a profound impact on our economy, posing a challenge to Hong Kong. Unless there is a substantial increase in labour productivity, an ageing population will lower our standard of living and undermine economic vitality and competitiveness. Besides, an ageing population will put pressure on public finances. In view of this, apart from expediting the integration with the Mainland, consolidating our key industries and promoting new growth areas over the long term, the Administration should continue to raise the educational, skill and competitive levels of the local workforce, with a view to upgrading productivity, mitigating the problems caused by an ageing population and a shrinking workforce, as well as preparing Hong Kong for further development as a knowledge-based economy.

Studies of the Central Policy Unit

7. The Central Policy Unit (CPU) has looked into the subject of retirement protection, and completed five related studies between 2007 and 2010. Overall speaking, the findings of these studies indicate that

the three pillars under the current retirement protection model in Hong Kong are complementary to one another, and would continue to be so in future. CPU is refining its relevant study having regard to the latest developments, by arranging various focus group meetings with academics, experts, think tanks and concerned groups to assess the sustainability of the existing system, and studying how to improve and optimise each pillar.

8. In attending the Question and Answer Session at the Legislative Council on 19 May this year, the Chief Executive pointed out that the existing MPF system was a consensus reached by the community after years of discussion. In the face of an ageing population, the younger generation who can bear the burden of the contribution required under a universal retirement protection system would continue to shrink. To ensure the sustainability of such a system, the Government would inevitably have to increase tax for a bigger commitment, and require both employers and employees to shoulder heavier contributions. This would be a large-scale social reform with far-reaching implications. The Administration considers it impractical to expect our community to reach a consensus on this matter within a short period of time. Instead, it would be more constructive to review and enhance the existing retirement protection system.

9. As regards the MPF system, the Administration and the Mandatory Provident Fund Schemes Authority are working closely to review and improve the various operational arrangements thereunder, including the review of adequacy of the contents of the information disclosed to scheme members and the disclosure channels; the mode of withdrawal of the MPF accrued benefits upon attaining the age of 65; and the circumstances under which withdrawal before the age of 65 may be permitted. As regards elderly welfare, the Community Living Supplement under the CSSA Scheme will be extended to cover elders in the second half of this year, with a concurrent increase of the monthly rate of this Supplement from $120 to $250. We will make reference to the findings of CPU’s studies, and make continuous efforts to enhance the existing retirement protection regime.

Labour and Welfare Bureau
Financial Services and the Treasury Bureau
Census and Statistics Department
Economic Analysis and Business Facilitation Unit, Financial Secretary’s Office

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