Proposed research outline

Retirement protection system in selected places

1. Background

1.1 The intensive policy debates about the feasibility of setting up a compulsory retirement protection scheme in Hong Kong throughout the 1990s have ended up with the implementation of a mandatory privately-managed contribution scheme, the Mandatory Provident Fund ("MPF"), from 1 December 2000 onwards. According to the Government, the MPF system, together with the non-contributory social security system[1] and voluntary private savings, form the three-pillar model for retirement protection that the World Bank proposed in 1994.

1.2 The MPF system has undergone a number of changes to improve its operation and protection of participating members in recent years. The latest change was made on 30 June 2011 when the Legislative Council approved the Government's proposal of raising the Minimum Relevant Income Level for the MPF mandatory contribution from HK$5,000 to HK$6,500 per month through amendment to the Mandatory Provident Fund Schemes Ordinance. However, some remaining issues, such as limited or nil coverage of low-income earners, the unemployed and non-employed persons, as well as high management fees, have aroused public concern over the adequacy of MPF to secure the basic needs of retirees.

1.3 The adequacy of the MPF system have been discussed in the Legislative Council on several occasions, particularly with respect to the issues of the ageing population and the efficacy of the three-pillar model in providing sufficient income support to the needy elderly. For example, at the Panel on Welfare Services meeting held on 13 June 2005, most of the Panel members and attending deputations urged the Administration to consider the establishment of a mandatory contributory pay-as-you-go Old Age Pension Scheme to provide a better protection for all elderly in Hong Kong. The Subcommittee to Study the Subject of Combating Poverty, at its meeting on 21 July 2005, was of the view that the Government should undertake a study on the universal retirement protection system.

[1] The social benefits provided include the Comprehensive Social Security Assistance, the Old Age Allowance and the Disability Allowance.

1.4 More recently, a motion on comprehensively reviewing the MPF Scheme to include setting up a universal retirement protection scheme was passed at the Council meeting on 1 December 2010. The efficacy of the three-pillar model for retirement protection and the proposal of implementing a universal retirement protection system were discussed at meetings of the Panel on Welfare Services on 18 December 2010 and 10 January 2011. Pursuant to a motion passed by the Panel on Welfare Services at its meeting on 18 December 2010, the Panel decided at its meeting on 10 January 2011 to appoint a subcommittee to follow up the proposal of implementing universal retirement protection. After obtaining the approval of the House Committee, the Subcommittee on Retirement Protection was activated in late April 2011.

1.5 At its meeting on 2 June 2011, the Subcommittee on Retirement Protection requested the Research Division to conduct a research study on retirement protection system in Greece, Spain and New Zealand, thereby facilitating the Subcommittee's deliberation on the universal retirement protection in Hong Kong.

2. Proposed places to be studied

2.1 The Research Division has conducted a preliminary research on the retirement protection system in Greece, Spain and New Zealand. The pension system in Greece is predominantly based on a generous public pension pillar. Voluntary occupational and private pension plans exist, but are of minor importance. As estimated by the Organization for Economic Co-operation and Development ("OECD"), the gross replacement rate (i.e. the ratio of pension to individual earnings) in Greece for a public pension recipient earning the average income before retirement reached 95.7% in 2010. Added to this, low-income retirees are entitled to non-contributory, means-tested pension supplement under the Pensioner's Social Solidarity Supplement Scheme.

2.2 In Greece, high replacement rates and generous rules for early retirement have put heavy pressure on the pension system and consequently on public finance. As such, the Greece government has recently introduced reform measures to improve the sustainability of its pension system, amid the ageing population and increasing burden of financing the public pension system. In particular, the minimum contribution period to receive a full pension will increase from 37 years to 40 years by 2015 and the statutory retirement age for women will be raised from 60 to 65 by 2013, to match the retirement age for men.

2.3 Similar to Greece, Spain provides a generous public pension plan for retirement, and private pension plans are not well developed. In Spain, the gross replacement rate for a pensioner earning the average income before retirement reached 81.2% in 2010. The Spanish government also provides non-contributory, means-tested pension supplement to low-income earners with insufficient pension contributions. Like Greece, Spain has recently proposed measures to boost the sustainability of its pension system through increasing the retirement age from 65 to 67 between 2013 and 2027 and lengthening the minimum contribution period for qualifying a full pension from 35 to 37 years.

2.4 Due to the similarity between the Greek and Spanish pension systems and scanty information available in English on the operation of the Greek system, the Research Division proposes to study New Zealand and Spain, and substitute Australia for Greece. Australia has a sustainable pension system and the distinctive features of which should provide useful reference to Hong Kong.

New Zealand

2.5 New Zealand's public pension system, the New Zealand Superannuation ("NZS"), distinguishes itself from those systems adopted in many other places in that its primary goal has more to do with social protection than with a replacement of pre-retirement earnings. Achieving a sufficient level of income replacement is viewed as a matter of individual responsibility. As such, NZS provides a universal, non-contributory flat rate pension to all New Zealand people aged over 65 who have passed the residency test. As estimated by OECD, the gross replacement rate for an NZS pensioner earning half of the average wage before retirement reached 77.5% in 2010.

2.6 While NZS may be adequate for some low-income earners, higher earners can make additional private provision for their retirement via contribution to a voluntary occupational pension scheme (the Kiwisaver Scheme). Employees can contribute 2%, 4% or 8% of their salary to the Kiwisaver Scheme, while employers are required by law to contribute 1% of participating employees' gross salary.

2.7 New Zealand is expected to face the problem of the ageing population in the near future and its gross pension costs are forecast to rise from the current 5% of GDP to about 8% in 30 years. In 2001, the New Zealand government established the New Zealand Superannuation Fund as a buffer fund to make provision for the expected surge in retirement costs. The Fund accumulates and invests the contributions received from the public coffers and the government is not allowed to withdraw any capital from the Fund to finance the pension costs until 2020.

Spain

2.8 In Spain, the retirement protection system is a multi-pillar scheme consisting of a mandatory state pension, a voluntary occupational pension and a voluntary private pension. The mandatory state pension consists of two components: a contributory and a non-contributory scheme. The former is an earnings-related pension scheme while the latter is a flat-rate, means-tested pension scheme for people who are ineligible for the earnings-related pension. Under the contributory scheme, a pensioner will receive a means-tested pension supplement if his or her pension is less than the statutory minimum pension set annually by the Spanish government.

2.9 Faced with increasing life expectancy, the Spanish government has proposed measures to consolidate the financial sustainability of the system through reducing the public pension expenditure and strengthening the second and third pillars by encouraging the public to make contribution to the voluntary pension plans.

Australia

2.10 The retirement protection system in Australia is a multi-pillar arrangement consisting of a tax-financed public pension (the Age Pension), a mandatory employer-funded private pension scheme (the Superannuation Guarantee) and voluntary private savings (voluntary superannuation). The Age Pension is payable to all elderly Australians who satisfy residency, age and means-test requirements. Around two-thirds of Australian retirees are receiving the Age Pension, rendering it one of the widest coverage public pension schemes in the OECD countries.

2.11 To supplement the Age Pension, the Australian government introduced the Superannuation Guarantee in 1992 requiring employers to make superannuation contribution (currently at least 9% of employee earnings) to individual retirement account funds. The Age Pension and Superannuation Guarantee together benefit particularly low-income earners, as they boost the gross replacement rate for a pensioner earning half the average income before retirement to 73.3% in 2010.

3. Proposed scope of the research

3.1 The Research Division proposes to study the retirement protection system in New Zealand, Spain and Australia in terms of the following aspects:

(a) responsible authorities and governing legislations;

(b) operation of the system with respect to its eligibility requirement, coverage and amount of pension payable;

(c) funding sources and amount of contribution;

(d) adequacy and sustainability of the system;

(e) review conducted, if any; and

(f) reform measures being introduced to improve the system.

4. Proposed completion date

4.1 The Research Division proposes to complete the research by October 2011.

Research Division
Legislative Council Secretariat
18 July 2011