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中區政府合署

LABOUR AND WELFARE BUREAU
GOVERNMENT SECRETARIAT
Central Government Offices
Lower Albert Road
Hong Kong

本函檔號 **Our Ref.:** LWB T4/18/43

來函檔號 **Your Ref.:**

18 August 2011

Legislative Council Secretariat
Legislative Council Building
8 Jackson Road
Central
Hong Kong
(Attn: Miss Betty MA)

Dear Miss Ma,

Legislative Council Panel on Welfare Services
Subcommittee on Retirement Protection

Thank you for your letter of 22 July this year concerning the captioned Subcommittee meeting on 24 August, and your email of 26 July relaying the Subcommittee Chairman's enquiries.

Regarding part (a) of your email of 26 July, the Central Policy Unit considers that using the pension replacement rate for employed persons only in assessing the financial income of the elderly in Hong Kong may not fully reflect the actual situation in Hong Kong. (For example, adult children generally provide financial support for their parents in Hong Kong, which is predominantly a Chinese society. There is also a saving habit amongst Hong Kong people. Apart from employment income, many people also have stock and real estate investments. Research studies in the past also revealed that elders in Hong Kong had multiple sources of retirement income.) In fact, the relevant data used for deriving the replacement rate are inadequate; the validity of such data is also questionable. Therefore we regret that the requested information cannot be provided.

The information requested in part (b) of the email is provided at **Annex**. As regards part (c), the advice of the Financial Services and the Treasury Bureau is that –

(i) generally speaking, actuarial study refers to the use of mathematical and statistical methods to assess possible financial risks due to unforeseen circumstances in future in order to project financial needs under different scenarios.

(ii) retirement schemes can be divided into two categories, viz. defined benefit schemes (such as some occupational retirement schemes (ORSO schemes)) and defined contribution schemes (such as Mandatory Provident Fund (MPF) schemes). For defined benefit schemes, as the final benefits that need to be provided by the schemes are pre-determined, there is a need to conduct actuarial studies to assess whether the contributions required can provide the pre-determined benefits. For instance, the Occupational Retirement Schemes Ordinance (Cap. 426) requires ORSO schemes, which are defined benefit schemes, to conduct actuarial review every three years to ascertain their financial position. As MPF schemes are defined contribution schemes with the contribution rate prescribed by legislation, and the final amount of accrued benefits available to individual scheme members under different scenarios are influenced by such factors as salary level, contribution rate and investment return after the deduction of fees, there is generally no need to conduct actuarial review for them as for defined benefit schemes.

(iii) Paper CB(2) 2350/10-11(01) submitted by the Administration in July this year has set out the projections of the final amount of accrued benefits available to individual scheme members upon retirement at the age of 65, in accordance with assumptions on the above parameters.

The Central Policy Unit has separately replied to your letter of 22 July in which information on their studies was sought.

(Simpson Lo)
for Secretary for Labour and Welfare

c.c. Secretary for Financial Services and the Treasury (Attn: Miss Emmy WONG)
Head, Central Policy Unit (Attn: Prof M K LEE)

Annex

EMBCR 4/2321/84 Pt. 31 To be embargoed until 4pm on 12.7.94

LEGISLATIVE COUNCIL BRIEF
THE PROPOSED OLD AGE PENSION SCHEME

INTRODUCTION

At the meeting of the Executive Council on 12 July 1994, the Council ADVISED and the Governor ORDERED that the public consultation paper "An Old Age Pension Scheme for Hong Kong" (copy at Annex A) should be published for public consultation.

BACKGROUND AND ARGUMENT

2. On 15 December 1993 in the Legislative Council the Secretary for Education and Manpower announced that Government would pursue an Old Age Pension Scheme (OPS). The OPS would be implemented subject to three provisos -

(a) the outcome of a feasibility study advising on the financial and technical aspects of such a scheme;

(b) endorsement by the community of proposals resulting from the feasibility study; and

(c) consultation with the Chinese Government.

THE FEASIBILITY STUDY

3. We engaged the Wyatt Company (HK) Ltd as consultants to carry out the feasibility study on the OPS. The consultants' final report (the Report) was submitted to the Secretary for Education and Manpower at the end of May 1994. The Report sets out the key features of a Basic Old Age Pension Scheme (BOPS), projects the contribution rates on the basis of those features, and provides a sensitivity analysis of a series of parameters that could be added to the BOPS, or vary some of its basic principles. The key features of the BOPS are set out in Annex B.

THE RECOMMENDED SCHEME

4. The recommended scheme has been set out in the consultation paper. The gist of the recommendations is analysed in paragraphs 5 to 22 below.

Benefit Level

5. When Government announced the intention to pursue an OPS, $2,100 per month was used as the illustrative figure. It was generally accepted to be a reasonable level as a basic subsistence pension. We recommend that this figure should be used as the initial benefit. Adjusted for inflation, it amounts to $2,300 at 1994 price levels. We recommend that it should be linked to inflation through annual adjustments according to the Composite Consumer Price Index.

6. Price-indexation option offers inflation proof benefits to eligible pensioners, similar to the existing old age allowances which are also adjusted according to a price indexation system. According to the consultants' advice, a total contribution rate of 3% of assessable income (i.e. 1.5% each from employers and employees) would be able to fund the pension benefits under the OPS for the entire projection period.

7. Under this model, surplus will accrue in the first two decades of the OPS operation. It would provide a cushion against unforeseen adverse circumstances. As the contribution rate declines in the long term as projected, real increases to the benefit level could also be made. There will be pressure for real increases to be made from time to time, but there is a built-in counter-balance in the system as a real increase in benefits beyond what the recommended contribution rate can afford would have to be matched by an increase in contribution rate to which contributors may object. Price indexation therefore offers a safe and yet reasonable basis for the OPS to operate on.

Ancillary Benefits

8. It is common elsewhere for ancillary benefits such as death benefits (i.e. benefit to be paid to the spouse of a deceased contributor/beneficiary) to be included in pension schemes. However, in the interest of simplicity in administration and to keep the cost down (provision of death benefits would add 0.2% to the contribution rate), we are not recommending the inclusion of death benefits or other ancillary benefits.

Eligibility

9. Taking into account the community expectation that only those who have resided here for a reasonable length of time should qualify for the OPS, and that there should be some form of income declaration to screen out the genuinely rich non-contributors, we have suggested that the eligibility criteria should be as follows -

(a) aged 65 or above. This age is chosen as it is the commonly adopted qualifying age elsewhere;

(b) have been resident in Hong Kong for a continuous period of at least 7 years prior to the date of application. For those old age allowance recipients who do not qualify under this residence rule, they will still be eligible for the OPS pension in order that they will not be worse off;

(c) contributors with a contribution record of 10 years or more or those aged 70 or above would not need to make an assets declaration to qualify. Others would have to declare that their total financial resources, excluding their place of residence, do not exceed $2 million. During the first 10 years of the OPS, years of continuous residence in Hong Kong prior to application may be used as a substitute for years of contribution, as a transitional measure; and

(d) must continue to reside in Hong Kong, with up to 180 days' absence a year permitted. We advise against paying pension payments to those beneficiaries who have emigrated. To do so would be administratively complicated and costly. Elsewhere, the rules vary but it is not uncommon to specify a permanent residence rule for beneficiaries.

Funding and Contributions

10. The total cost of the OPS, including the administration cost, will be funded by contributions from employers, employees, and those economically active persons with regular income, plus Government contributions.

11. The recommended contribution rate is for employers and employees to each contribute 1.5% of the employees' assessable income. The self-employed will contribute 3% i.e. both employers' and employees' shares. This initial contribution rate will be sufficient to cater for the

benefits under the OPS well into the next century on the assumption that benefits are price-indexed and on the projection that population growth will continue at an average rate of 1% per annum throughout the projection period.

12. Government will contribute by ploughing back the current and projected savings on its expenditure on the old age allowances and the basic payment to the aged under the Comprehensive Social Security Assistance Scheme. This amounts to $3.6 billion in 1994.

13. Government will also contribute as an employer of the civil service and on behalf of the subvented sector. This amounts to about $1.2 billion in 1994.

14. In addition, Government proposes to inject a substantial one-off capital of $10 billion as a start-up fund to help pay for the set-up cost of the OPS, to enable immediate pension payments be made as soon as the Scheme is in place, and to provide a safety cushion against unforeseen circumstances in the initial years of operation when the reserve has yet to build up. It will also help to keep the contribution rate down by providing income to offset part of the OPS cost, such as administration cost.

15. We have not recommended the tripartite funding option (i.e. Government, employers and employees to share the cost of the OPS equally, with Government paying for one-third of the cost). To do so would commit Government (and the future SARG) to an additional recurrent expenditure of at least $1.5 billion in 1994 rising gradually to $3.9 billion (1994 prices) by the year 2036. This would be an enormous financial burden on taxpayers. To cater for this scale of expenditure would require the tax rates for both the Standard Salaries Tax and the Corporate Profits Tax to be raised by at least 0.5% each. It would also weaken the link between employers/employees contributions and pension payouts.

16. We propose to exempt those low income earners making less than $4,000 per month from contributions in order to reduce their financial burden. But their employers will still have to pay the employer's share. Its effect on the contribution rate is negligible.

17. We do not propose to set a ceiling on assessable income for contribution purpose because it would increase the cost of the OPS and hence the contribution rate

considerably. At a low contribution rate of 1.5% on assessable income, the extent of income redistribution, even for the high income group, would be fairly limited.

18. In accordance with the principle of collective social insurance, we have recommended that all economically active members should participate in the Scheme through contributions. No opting-out would be allowed for civil servants, subvented staff and those private sector staff who are already covered by either civil service pension or provident fund schemes. To do so would also complicate the administration of the Scheme significantly.

19. On the basis of the same principle, we are recommending that all non-local employees, including foreign domestic helpers (though most of them would be exempted under the low income category), should also be required to contribute. The only exemption that we are recommending are the workers imported under the General Labour Importation Scheme as they are normally not allowed to remain here for more than 6 years.

Tax deductibility for OPS contributions

20. In line with the usual practice elsewhere, and in keeping with the treatment applied to voluntary occupational retirement schemes, we recommend that only employer contributions to the OPS should be tax deductible as business expenses. The revenue foregone is estimated to be $800 million in 1994. To allow tax deductibility for employee contributions would cost between $600 million and $800 million in revenue foregone in 1994.

Administration

21. We are recommending that all aspects of the OPS should be run by a new, non-civil service public agency. The OPS Administration will be governed by statute through a governing board comprising representatives from Government, employees, employers and other relevant sectors.

22. To reflect the total cost of the OPS, and in line with the principle that this must be met by the total contributions, we are recommending that the administration and staff costs of the OPS must form part of the total cost of the pension, and be met through contributions.

FINANCIAL AND STAFFING IMPLICATIONS

23. Government will provide a one-off cash injection of $10 billion to the OPS. Government will also contribute on a recurrent basis the funds that would have been spent on the old age allowances and the standard rate of payment to elderly persons under the CSSA - $3.6 billion in 1994. As an employer, Government will contribute about $1.2 billion in 1994 in respect of OPS employer contributions for civil servants and staff in the subvented sector. The tax revenue forgone by allowing employer contributions to be tax deductible would amount to about $800 million in 1994.

24. The setting-up costs of the OPS Administration will be covered by the one-off cash injection. Recurrent administration and staff costs will be met through the scheme contributions. Some additional Government staff will be required to oversee the implementation of the scheme in the setting up stage and its operation thereafter.

ECONOMIC IMPLICATIONS

25. The objective of the proposed OPS is to provide some degree of financial security for all Hong Kong people in their old age. For this, both employees and employers would have to contribute. This would have the economic effect of an additional tax, although at a contribution rate of only about 1.5% the impact would be much smaller than with a 5% contribution rate under the earlier compulsory provident fund proposal.

26. The OPS would redistribute income from the working population as contributors to the elderly as recipients. This would probably lead to a boost in consumption. But the savings thus reduced would have some effect on dampening investment. Also, the cost of production or of doing business in general would be slightly higher and could have some negative effects on export competitiveness and business investment. But again the impact would be much smaller compared to other compulsory provident fund options.

MONETARY IMPLICATIONS

29. An assessment of the monetary implications of the proposal will have to be made having regard to the size of the balance, the authority having control of the funds and the agreed investment policy.

Investment

30. We intend to keep all OPS funds in a separate account that will only be used for that purpose. Old Age pension schemes elsewhere usually invest in local government bonds and treasury bills. In Hong Kong, it may be possible to invest in Exchange Fund Bills and Notes or other means such as deposits with the banking sector and Hong Kong dollar debt instruments. Another possible option is to vest the investment of the OPS fund in the Exchange Fund, using similar arrangements for the investment of fiscal reserves where separate accounts are being kept. How such investment should be done in the end would hinge on the actual investment policy which has to be developed taking into account the needs of the fund, e.g. size of the balance, the need for liquidity, balance between risk and return, etc. The general thrust however, is that a prudent investment policy is mandatory.

PUBLIC CONSULTATION

29. The consultation paper takes into account views expressed on this subject since October 1992.

PUBLICITY

30. The consultation paper is being released to the public today through a press conference. Briefings for the media, DBs and other interested bodies will follow. A full-scale publicity programme is being implemented to inform the public of the recommendations and to invite comments from them.

Education and Manpower Branch
12 July 1994

ANNEX B

Structure and main points of the
Basic Old Age Pension Scheme (BOPS)
as laid out in the Consultancy Report

Benefits

The pension would be $2,300 per month at 1994 price levels, and it would be adjusted annually in line with increases in the Composite Consumer Price Index.

Contributions

2. All working people, including the self-employed, will have to contribute. There will be no provision for opting out, even for members of voluntary or statutory schemes. The total contribution would be shared equally between employers and employees; the self-employed would contribute both shares. Employee contributions would be based on assessable income for salaries tax purposes while contributions from the self-employed would be based on their assessable profits for profits tax purposes. There would be no floor (minimum) or ceiling (maximum) for contribution purposes under the BOPS.

3. Government would contribute as an employer, as well as plough back into the BOPS the projected savings arising from subsuming the Normal Old Age Allowance (NOAA), the Higher Old Age Allowance (HOAA), and the standard rate of payment under the Comprehensive Social Security Assistance (CSSA) Scheme paid to those aged 65 or above.

4. Under the BOPS a total contribution rate of 3%, i.e. 1.5% each from employer and employee, would be adequate to provide the projected benefits for the next century. This assumes that 5% of the total contributions are uncollectible, and that the cost of administering the scheme would be borne separately.

Eligibility

5. Under the BOPS, all Hong Kong residents aged 65 or above would be eligible, provided they satisfy the following criteria -

(a) have lived in Hong Kong for at least five years since the age of 60 (same as for NOAA);

(b) continue to live in Hong Kong; (up to 180 days a year absence is permitted - the same as the NOAA); and

(c) non-contributors (including those who have contributed for less than 10 years) between 65-69 will have to declare that their assets are worth less than $5 million.

Administration

6. The BOPS will be administered by a new agency. It is estimated that about 1660 staff will be required, at a recurrent cost of $500 million per year.

7. Salaried employees will contribute through their employers, who will be required to make periodic payments to Government. An annual assessment and payment will be made by the self-employed.

Sensitivity Analysis

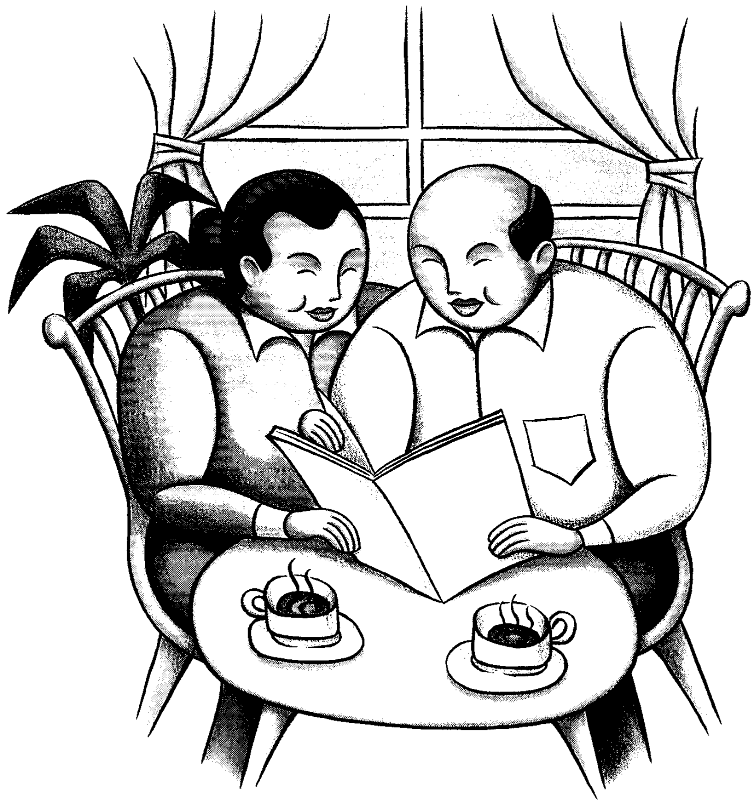
8. Twenty-one parameters were analysed in the Report. Of these, only two indicated a significant impact on contribution rates -

(a) benefit increases indexed to earnings: the cost and contribution rate for this model would be considerably higher in the medium to long term; and

(b) pension commencement age: if the benefits are paid from the age of 60, the contribution rate will need to increase by about 50%.

Annex A

Taking the Worry out of Growing Old



A Consultation Paper on the Government's Proposals for an Old Age Pension Scheme

CONSULTATION PAPER

An Old Age Pension Scheme for Hong Kong

Education and Manpower Branch
Government Secretariat

July 1994

CONTENTS

FOREWORD

The Administration commends this consultation paper on the proposed Old Age Pension Scheme to the general public and invites their views. This Scheme is important to all members of the community and the subject deserves extensive public consideration. There will now be a period for public consultation extending to the end of October 1994. Members of the public who wish to comment on the proposals in this paper are invited to write to

The Secretary for Education and Manpower
Central Government Offices,
9th floor, West Wing,
Lower Albert Road,
Hong Kong.

by 31 October 1994.

Education and Manpower Branch
12 July 1994

CHAPTER 1
INTRODUCTION

Background

1.1 On 15 December 1993 in the Legislative Council the Secretary for Education and Manpower announced that Government would pursue an Old Age Pension Scheme (OPS). The OPS would be implemented subject to three provisos -

(a) the outcome of a feasibility study on the financial and administrative aspects of such a scheme;

(b) general public acceptance; and

(c) discussion with the Chinese Government.

1.2 In coming to this conclusion, Government has recognised the growing community sentiment that, being increasingly affluent, the community should as soon as possible provide for a basic level of income security for our senior citizens. Having examined the other retirement protection options i.e. a central provident fund (CPF) and a mandatory privately-run retirement protection scheme (RPS), Government has concluded that only an OPS would be capable of meeting the community sentiment within a reasonably short time. An OPS offers the following key advantages over the CPF and RPS:

(a) it provides **immediate benefits** upon implementation. A CPF or RPS typically takes at least 30 years to yield meaningful returns;

(b) it provides **income security for all eligible elderly citizens including low-income employees, housewives and retirees**. A CPF or RPS would only cover those who have worked for a long time. Retirees and housewives would not be protected under a CPF or RPS. Those who are now above 40 would not have sufficient time to save for retirement. In other words, a CPF or RPS would leave the majority of the population unprotected.

(c) it provides **inflation-proof income at a guaranteed basic level.** The retirement income under a CPF or RPS would, on the other hand, depend on the contributor's income level and be subject to the risk of investment returns; and

(d) its **contribution rate would be lower** than that of a CPF or RPS. Under a CPF or RPS, the total contribution rate would be at least 10% of earnings. Under an OPS, it should be considerably lower.

Appointment of consultants

1.3 The Wyatt Company was appointed as consultants to undertake the feasibility study referred to in paragraph 1.1 above. In carrying out the feasibility study, the consultants were given three guiding principles -

(a) the OPS should provide regular pension benefits at a basic defined level for the aged who satisfy established eligibility criteria;

(b) the pension benefits should be financed in full by contributions collectible from employers, employees and those persons in receipt of regular income albeit not from engagement as employees, e.g. the self-employed, together with the amounts that Government will plough back as a result of subsuming the Normal Old Age Allowance, the Higher Old Age Allowance and those basic elements of the Comprehensive Social Security Assistance Scheme presently payable to the aged; and

(c) the administration of the Old Age Pension Scheme should be kept as simple and user-friendly as possible.

1.4 The main areas examined in the feasibility study are in *Appendix I.*

CHAPTER 2
SUMMARY OF RECOMMENDATIONS

Eligibility Requirements (Chapter 4)

2.1 The qualifying age for receipt of pension benefits should be 65. (para 4.1)

2.2 Both men and women should receive their pension benefits at the same age. (para 4.2)

2.3 Potential OPS beneficiaries must have spent a minimum of 7 years continuous residence in Hong Kong prior to the date of application for the pension (para. 4.3).

Existing NOAA/HOAA recipients who do not qualify under this residence requirement when the OPS is implemented will receive their pension. (para. 3.6).

2.4 A pensioner must continue to reside in Hong Kong for the pension to continue. Up to 180 days absence a year is permitted. (para 4.4)

2.5 No assets declaration is required in respect of potential beneficiaries who have contributed to the OPS for not less than 10 years (or in the transition period have at least 10 years continuous residence in Hong Kong prior to the date of application), and for those who are aged 70 or above (para 4.5)

2.6 Non-contributors between the ages of 65-69 must be able to declare that their overall financial resources are less than $2 million. (para 4.6)

Benefits (Chapter 5)

2.7 The pension level should be set at $2,300 a month in 1994 dollars. (para 5.1)

2.8 Future pension increases should be indexed to increases in the Composite Consumer Price Index. (para 5.2)

Contributions and Funding Methods (Chapter 6)

2.9 All employers should withhold their employees' contributions from earnings, and remit it together with their own portion of the contribution on a regular basis to the OPS Administration. (para 6.1)

2.10 Arrangements should be made to guard against misuse of contributions collected by employers and to recover withheld contributions in case of declared bankruptcies. (para 6.2)

2.11 Owners of unincorporated businesses, including the self-employed, should only contribute once a year. (para 6.3)

2.12 Non-local employees, including foreign domestic helpers, and non-local owners of unincorporated businesses are required to contribute. (para 6.4)

2.13 Workers imported under the General Labour Importation Scheme should be exempted from contribution. (para 6.5)

2.14 OPS contributions should be in the form of a percentage of assessable income, to be shared equally between employers and employees in case of salary earners, but paid in full by owners of unincorporated businesses, including the self-employed. (para 6.6)

2.15 The definition of assessable income in the Inland Revenue Ordinance should be used for OPS calculations for salary earners. (para 6.7)

2.16 Non-salary earners should contribute to the OPS on the basis of assessable profits. (para 6.8)

2.17 Pensions should not be regarded as income for the purpose of assessing OPS contributions. (para 6.9)

2.18 Income earners making less than $4,000 a month should be exempted from contribution but their employers will have to pay the employers' share of the contributions. (para 6.10 and 6.11)

2.19 There should be no income ceiling for contribution purposes. (para 6.12)

2.20 Contribution records should be kept for each contributor. (para 6.13)

2.21 Assistance should be available to help employers calculate assessable income for their employees. (para 6.14)

2.22 Government is prepared to make a one-off contribution to the OPS as a start-up fund. (para 6.21)

2.23 Contributions to the OPS and benefit payments should commence at the same time. (para 6.24)

2.24 The OPS should adopt a fixed contribution rate funding method. (para 6.26)

Impact on Existing Schemes (Chapter 7)

2.25 OPS benefits should not be integrated with civil service pensions or subvented organisations' provident funds. Participants in the civil service pension schemes or provident funds run by subvented organisations should still have to contribute to the OPS. (para 7.2)

2.26 Members of voluntary occupational retirement schemes should not be allowed to contract out of the OPS. (para 7.4)

Administration (Chapter 8)

2.27 All aspects of the OPS should be run by a new non-civil service public agency - the OPS Administration. (para 8.5)

2.28 The administration cost should form part of the total cost of the OPS and be borne by contributors. (para 8.7)

2.29 Simple, user friendly procedures should be adopted by the OPS Administration for pension applications and payments. (para 8.8)

Cost of the OPS (Chapter 9)

2.30 The cost of the OPS will be funded entirely by the total contributions from employers, employees, persons with regular income and the Government.

The recommended rate of contribution is 1.5% of assessable income each from employers and employees in case of salary earners (i.e. each to contribute 1.5% of assessable income), and 3% of assessable profits for the self-employed. (para 9.5)

Tax Deductibility and Investment Policy (Chapter 10)

2.31 Employers' contributions to the OPS should be tax deductible. (para 10.1)

2.32 The OPS pension should not be included as taxable income. (para 10.3)

2.33 Further consideration should be given to the OPS investment policy once the policy on funding has been determined. (para 10.5)

CHAPTER 3
EXISTING BENEFITS

Existing Benefits for the Aged

3.1 Existing benefits for the elderly are provided through -

(a) the Social Security Allowance Scheme (SSA); and

(b) the Comprehensive Social Security Assistance Scheme (CSSA).

Social Security Allowance (SSA) Scheme

3.2 The Scheme is non-statutory and non-contributory. With the exception of the Normal Old Age Allowance which is subject to income declaration, the allowances payable under the Scheme are non-means-tested. It is entirely funded by general revenue. The current monthly payment rates for the SSA are -

Normal Old Age Allowance (NOAA)	$485
Higher Old Age Allowance (HOAA)	$550
Normal Disability Allowance	$970
Higher Disability Allowance	$1,940

Comprehensive Social Security Assistance (CSSA) Scheme

3.3 The CSSA Scheme is non-statutory, non-contributory and means-tested. It is designed to bring the income of individuals or families, including the elderly, up to a prescribed level so that basic and essential needs can be met.

3.4 Payments under the CSSA Scheme consist of two main components -

(a) different standard rates for different categories of recipients to meet their basic and general needs; and

(b) a wide range of special grants to meet special circumstances or personal needs.

In addition, an annual long-term supplement is payable to those in continuous receipt of assistance for not less than one year.

3.5 Various types of non-monetary benefits are also available for the elderly, such as free medical treatment for CSSA recipients, public housing priority and other concessionary schemes.

Effect of the OPS on Existing Benefits

3.6 The NOAA and HOAA will be subsumed by the OPS. Transitional arrangements will be made to enable those who are in receipt of the NOAA and HOAA but who do not meet the residence requirement of the OPS (para 4.3) to receive their pension so that they will not be worse off under the new scheme.

3.7 The Disability Allowances under the SSA Scheme will not be affected by the OPS.

CHAPTER 4
ELIGIBILITY REQUIREMENTS

Qualifying age for receipt of benefits

4.1 It is **recommended** that the qualifying age for receipt of pension benefits should be 65. This is the most commonly adopted qualifying age for pension schemes elsewhere. While there have been calls for the age to be set at 60, to do so would increase the cost of the OPS by about 50%. Details of the cost implications are at *Appendix II.*

4.2 We also **recommend** that both men and women receive their pension benefits at the same age. This would be in line with the world trend towards equalizing the age at which both sexes receive their pension. The number of persons who are aged 65 or above has been estimated and is shown at *Appendix III.*

Residence requirements

4.3 In line with the general community feeling that only those who have resided in Hong Kong for a reasonable period of time should qualify for pension benefits, it is **recommended** that potential OPS beneficiaries should have spent a minimum of 7 years continuous residence in Hong Kong prior to the date of application for the pension. An absence of 392 days would be permitted during this period.

4.4 Having given thought to the idea of granting pension benefits to contributors who have settled permanently outside Hong Kong, it is concluded that it would be administratively very complicated and costly to do so. It is also logical and not uncommon to require beneficiaries to remain as residents to maintain their eligibility. It is **recommended** that beneficiaries must continue to reside in Hong Kong if the pension is to continue. Up to 180 days absence each year would be permitted.

Contribution Requirements and Assets Declaration

4.5 It is **recommended** that contributors who have established a contribution record of not less than 10 years to the OPS should be entitled as a matter of legal right to a pension under the OPS, without the need to complete an assets declaration prior to receiving their benefits. During the first ten years of the OPS (the transition period) years of continous residence should be substituted for years of contribution to enable the contribution record to build up gradually. Those who are aged 70 and above should also be eligible without regard to their financial resources, in line with the current practice in the payment of HOAA.

4.6 It is **recommended** that potential beneficiaries between the ages of 65-69, who have not established a contribution record of at least 10 years (or 10 years of continous residence), should have to meet the following financial resource criteria, by means of an assets declaration before they are eligible -

overall financial resources, being monthly disposable income x 12 plus disposable capital, must not exceed $2 million. Specified deductions and personal allowances would be permitted in respect of disposable income.

In this respect -

(a) where disposable capital is not money, then its value shall be taken to be the amount which it would realise on sale in the open market;

(b) the value of the potential beneficiary's owner occupied dwelling, as well as the value of household furniture and effects shall not be taken into account when computing disposable capital; and

(c) no personal allowances are permitted in computing the potential beneficiary's disposable capital.

CHAPTER 5
BENEFITS

Initial benefit level

5.1 When Government announced the intention to pursue an OPS, $2,100 per month was used as an illustrative figure for the proposed basic pension. Adjusted for inflation, this amount becomes $2,300 in 1994. It is **recommended** that the initial pension should be $2,300 a month, at 1994 price levels. Cost calculations in this consultation paper are based on this amount.

Future increases in pension benefits

5.2 It is **recommended** that future pension increases should be linked to increases in the Composite Consumer Price Index. This would provide beneficiaries with an inflation-proof basic pension.

5.3 An alternative would be to link pension benefits to movements in median earnings. On the assumption that earnings tend to increase faster than prices by an average of 2% per annum, the effect of this option would be a higher level of contribution, as shown in *Appendix IV.* Though the inflation-linked option means that the value of the pension would decrease in time relative to median earnings, it is a safe approach in that its initial contribution rate will be able to sustain the OPS for the next half-century with minimal risk of having to raise it in time. It also allows a surplus to be built up in the initial years to cater for adverse circumstances such as economic recession and high unemployment. On balance, therefore, the inflation-linked option is preferred. Should the outcome turn out to be as projected, there would be opportunities in time to review the pension level to see if increases over and above inflation could be made with the same contribution rate.

The Case for Ancillary Benefits

5.4 Many social security schemes elsewhere provide ancillary benefits such as death benefits for the surviving spouse or family in the event of a contributor's death before or after the commencement of a pension. However, to do so would complicate the administration of the scheme considerably. It would also increase the cost of the scheme and raise the contribution rate, as shown in *Appendix V.* Given the fact that the surviving spouse will be paid an OPS pension in any case, subject to eligibility, that other social security benefits would still be available in case of need, and that the scheme should be as simple to administer as possible, it is not recommended that there should be any ancillary benefits attached to the OPS.

CHAPTER 6
CONTRIBUTIONS AND FUNDING METHODS

Collection of contributions from employers and employees

6.1 It is **recommended** that all employers should be required to withhold their employees' contribution from their earnings, and to remit it together with their own portion of the contribution to the OPS Administration on a quarterly basis. It is **recommended** that larger companies should remit on a more frequent basis. This is considered a much more efficient way of collecting contributions than through individual employees.

6.2 It is **recommended** that appropriate arrangements are made to ensure that contributions are not used by the employer for purposes unrelated to the OPS. It is also **recommended** that the OPS Administration should be empowered to recover withheld employee contributions along with the related employer contributions from employers who have been declared bankrupt or have ceased to do business before payment of these contributions to the OPS Administration.

Contributions by unincorporated businesses

6.3 It is **recommended** that owners of unincorporated businesses, including the self-employed, should contribute once a year, and that the timing of the contribution should match that of filing their profits tax return. When this has been completed, the business owner will also calculate the amount of contribution to the OPS. A copy of the calculation together with the contribution will be sent to the OPS Administration. Any adjustments would be reflected in the following year's assessment.

Non-local employees and non-local owners of unincorporated businesses

6.4 The OPS functions on the principle of collective social insurance whereby all members of the working population are required to contribute towards the scheme. In return, they will be eligible for pension benefits under the OPS upon reaching the age of 65 and having satisfied the minimum contribution history (or the alternative period of residence) of 10 years. There will be no restriction on nationality as far as eligibility is concerned. Therefore, it is **recommended** that all non-local employees and non-local owners of unincorporated businesses should be required to contribute to the OPS and be eligible for pension benefits, in the same way as their local counterparts. This would include all foreign domestic helpers working in Hong Kong.

6.5 A special case should, however, be made for workers imported under the General Labour Importation Scheme as their employment contracts will not normally be renewed after the third term, or a maximum of 6 years. It is **recommended** that imported workers under the General Labour Importation Scheme should not be required to contribute to the OPS. This will have no noticeable effect on the contribution rate.

Form of contribution

6.6 It is **recommended** that the form of contribution should be a percentage of assessable income. For salary earners, it is **recommended** that employers and employees should share the contribution rate equally. For non-salary earners (e.g. the self-employed), they will be required to contribute to the OPS at a rate equal to the sum of the employer's and employee's share. This practice is common in contributory pension schemes elsewhere.

Assessable income: salary earners

6.7 Assessable income for salaries tax purposes refers to income derived by a person in Hong Kong from any office or employment, and includes any pension. While investment income and fringe benefits are excluded, living quarters provided by the employer are taxable at four to ten percent of the individual's income. It is **recommended** that the definition of assessable income be adopted as a starting point for the OPS.

Assessable income: non-salary earners

6.8 For non-salary earners, assessable income consists of profits from unincorporated businesses, and interest, dividends and rental income from other sources. Using the same treatment as for salaries earners, then assessable income would exclude everything but profits from unincorporated businesses. A self-employed person who receives income from employment as well as profits from an unincorporated business would need to contribute in respect of both. It is **recommended** that non-salary earners contribute on the basis of assessable profits.

Inclusion of pensions as income

6.9 Although pensions are regarded as assessable income for salaries tax purposes, it is **recommended** that this should not be the case in respect of assessable income for OPS contributions. This is because -

(a) the majority of private sector occupational retirement schemes pay lump sum benefits which are currently tax-free. If OPS contributions were to be levied on pensions then they should also be imposed on lump sum benefits;

(b) existing welfare benefits are not liable to tax; and

(c) it would be difficult to determine who should make the employer's contribution.

Assessable income: floor

6.10 To reduce the potential for financial hardship being incurred by low income OPS contributors, it is **recommended** that all persons earning a salary or in receipt of regular income less than $4,000 a month would not need to contribute to the OPS. This would result in about 9% of the labour force being taken out of the contribution net. The impact on the cost of the OPS is insignificant.

6.11 As the argument of financial hardship should not apply to employers, it is **recommended** that employers of persons earning below the prescribed amount should still have to contribute the employer's portion of the OPS contribution.

Assessable income: ceiling

6.12 An earnings ceiling is the level of earnings or assessable income above which no OPS contributions would be required. However, the effect of an earnings ceiling on the total contribution rate could be quite significant, depending on where the level was set. An illustration of the cost implication is at *Appendix VI.* Furthermore, it would complicate the administration of the scheme. It is **recommended** that no earnings ceiling be set for the OPS.

Record keeping and assistance

6.13 It is **recommended** that contribution records be kept by the Old Age Pension Scheme Administration (OPSA) for each contributor in order to establish their eligibility.

6.14 It is **recommended** that assistance should be available from the OPSA to help employers calculate assessable income for their employees.

Government contribution

6.15 Government has already agreed to contribute to the OPS as an employer, in respect of civil servants and employees of subvented organisations, and by ploughing back the money that would have been spent on the NOAA, the HOAA, and the standard rate paid to elderly persons under the CSSA.

6.16 A number of organisations have proposed that public funds be used to help finance benefits under the proposed OPS. One of the more popular suggestions is for tripartite financing, i.e. for the cost to be shared equally between Government, the employer and the employee. The financial implications of this option are enormous: Government will have to spend an additional $1.5 billion in 1994, rising to $3.9 billion in 2036 if expenditure on the existing benefits is included as part of the one third contribution, and considerably more if it is excluded. In terms of its effect on the current tax rates, this option will effectively imply a 0.5% increase in both the standard salaries tax rate and corporate profits tax rate. Details are at *Appendix VII.*

6.17 Elsewhere in the world, the methods used to apportion the costs of old age pensions vary considerably. Though state subsidies are not uncommon, some countries rely exclusively on contributions by employers and employees, and the government restricts its role to monitoring the scheme.

6.18 The benefits described in Chapter 3 are provided on a non-contributory basis out of general revenue. Of these benefits, the NOAA, the HOAA and the standard rate of payment under the CSSA for persons aged 65 or above will be subsumed by the OPS, and all the funds that would have financed them will go instead to the OPS. This amounts to about $3.6 billion in 1994 and is projected to increase to $15.4 billion (1994 prices) by 2056. It is already a substantial Government contribution.

6.19 In addition to the financial provision, there are also benefits such as community support and residential services for elderly persons, as well as heavily subsidised medical care and public housing where necessary. While these services may not seem directly related to old age pension benefits as such, in some countries they would be included in the value of the pension scheme. There is no intention of removing these benefits when the OPS is introduced, and they will continue to be provided at minimal or no cost to the recipients.

6.20 Government's contribution to the OPS as an employer amounts to about $1.2 billion in 1994. This amount will increase in subsequent years in line with increases in the number of public sector employees and with salary increases in the public sector. Together with the amount to be ploughed back to the OPS, Government's total contribution stands at about $4.8 billion which already amounts to 30% of the total cost of the OPS in 1994.

6.21 On top of the above provisions, Government is prepared to make a substantial capital injection of $10 billion as a start-up fund to provide the set-up cost for the OPS and to enable immediate payment of pensions to those eligible. The fund will also provide a cushion against adverse circumstances and help to minimize the risk of the contribution rate having to be increased to cope with these unforeseen circumstances.

6.22 Government is also prepared to treat employers' OPS contributions as deductible expenses for profits tax purposes. We estimate that the tax revenue forgone on the employers' contributions would be some $770 million in 1994 rising to $2.9 billion in 2056.

6.23 Taking into account the cash contributions (recurrent and capital) by Government and the tax revenue foregone, the cost to Government would amount to some 35% to 40% of the total cost of the OPS.

Transitional funding arrangements

6.24 Once the OPS is implemented, pensions will be paid out at the end of the first and subsequent months. As contributions will be collected either quarterly or annually, then the first payments will not be received until three to four months after implementation if collection and benefit payment start at the same time. It will be necessary to provide for a cash flow to cover the period between the first month of pay out and the first month of collection. The $10 billion start-up fund will provide the necessary cashflow for this purpose. It is **recommended** that contributions and payments should commence simultaneously once the OPS is in place.

Funding methods

6.25 Two popular funding methods for old age pension schemes are the Pay As You Go (PAYG) method, and the modified PAYG method. Under the former, scheme contributions are determined to match benefit payments as these need to be paid. There is no pre-funding and no accumulation of assets. The cash flow will fluctuate according to the number of retirees in any particular year, and the required level of contribution will also fluctuate over time. This is troublesome as the contribution rate will have to be adjusted each year.

6.26 A better option is the modified PAYG method, used by many overseas social security systems. The benefit payment is still used as the basis for contribution, but fluctuations in the contribution rate are smoothed out by the existence of a small reserve fund, the size of which can be determined in advance. An alternative is to determine a contribution rate that could remain unchanged for a reasonable period. This would mean that the reserve would build up when the "true PAYG" rate was below the fixed rate, and run down when it was higher. It is **recommended** that this option of a reserve and a fixed rate contribution be adopted for use in the OPS.

CHAPTER 7
IMPACT ON EXISTING SCHEMES

Impact on the Civil Service Pension Schemes

7.1 Nearly all civil servants and employees of subvented organisations are covered by pension or some form of provident fund schemes (the former for the civil service, the latter for the subvented sector) to which Government already contributes. Government has already agreed to meet in full the employer's OPS contributions on behalf of the civil service and employees of subvented organisations.

7.2 It would be possible to amend these existing schemes by arranging for full or partial integration with the OPS, or by exempting their members from having to contribute to the OPS. As such integration or off-setting would appear to be discriminatory to civil servants and employees of subvented organisations, and could lead to confusion about the eventual level of benefits payable, it is **recommended** that there should be no integration of OPS benefits with civil service pensions or subvented organisations' provident funds. In line with the principle that the entire working population should participate in the OPS as a collective form of social insurance, it is also **recommended** that participants in such schemes must contribute to the OPS.

Impact on voluntary retirement schemes

7.3 It is expected that the introduction of the proposed OPS will make the general public more aware of the value of retirement schemes. On the one hand therefore more employees may suggest that their employers set up voluntary occupational retirement schemes. It is Government's policy to encourage the establishment of such schemes. On the other hand, the existence of the OPS will mean that there is at least a minimum pension income available to the elderly, so that schemes that might have provided similar or lower benefits will not be set up. The level of OPS benefits will be the most important element that will determine the impact on voluntary occupational retirement schemes.

7.4 In some countries members of voluntary retirement schemes are allowed to contract out of the Government social security scheme provided that benefits under the former are at least equal to those under the latter. However, this entails considerable administrative work as many employers might not have established voluntary retirement schemes, so as employees changed jobs they could be moving in and out of the Government scheme. Besides, most voluntary retirement schemes provide lump-sum benefits on retirement. There is no safeguard that beneficiaries would have sufficient income security for their old age. It is therefore in the interest of members of voluntary schemes to join the OPS to secure their rights to a regular pension. It is **recommended** that contracting out should not be allowed.

CHAPTER 8
ADMINISTRATION

General

8.1 This chapter deals with the administrative requirements of operating the OPS, and the cost of such administration.

Administration of benefit payments and contribution collection

8.2 The benefit payment side of the OPS should be similar to the existing system run by the Social Welfare Department (SWD). As it is recommended that OPS contributions should be generally calculated on the basis of definitions used by the Inland Revenue Department (IRD), at first sight, therefore, it would seem feasible for the proposed OPS system to be integrated with the existing work of those two departments.

8.3 However, there would be considerable difficulty in combining the annual assessment system used by the IRD with the quarterly one that is recommended for the OPS. Also, as about half of the workforce is currently outside the salaries tax net, substantial restructuring and expansion of the IRD systems would be required if it is to act as the collecting agent for the OPS. In respect of benefits, as part of the current procedure within SWD, when processing an application for NOAA or HOAA, the responsible officer will also deal with the applicant's other welfare needs. It would clearly be unproductive for every OPS applicant to be assumed to be applying for welfare benefits or services as well as a pension. If SWD handled OPS benefit payments, beneficiaries might also hesitate to make a claim because they might assume that the pension was only a welfare payment for the needy.

8.4 Nor does it seem sensible to split the OPS between two different departments.

8.5 In the light of the arguments in the preceding paragraphs, it is **recommended** that all aspects of the OPS should be run by a new, non-civil service public agency - the OPS Administration, which will be governed by statute through a governing board comprising Government officials and representatives from employees, employers and other relevant sectors.

Resources for the OPS Administration

8.6 At this stage it is not possible to estimate the number of staff required by the OPS Administration. For comparative purposes, though, an organisation of 1,660 professional and administrative staff would cost an estimated $500 million per annum, and would incur a starting up cost of about $750 million.

8.7 To reflect in full the cost of the OPS, and in line with the principle that the OPS should be a ring-fenced scheme with the full cost funded by total contributions, it is **recommended** that the administration cost should form part of the cost of the OPS and be borne by contributors.

Pension payment process

8.8 Benefits are discussed in Chapter 5. It is **recommended** that simple, user-friendly procedures be drawn up for pension applications and payments.

Collection process

8.9 The means of collecting contributions is already discussed in Chapter 6.

CHAPTER 9
COST OF THE OLD AGE PENSION SCHEME

General

9.1 This chapter considers the cost of the basic OPS, taking into account the cost of administration.

Total OPS Costs

9.2 The net cost in 1994 dollars to be met from employer and employee contributions over the projection period is shown in the chart below.

Year	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*
Pension Payment($bn)	15.3	15.9	16.5	17.1	17.7	18.3	18.9
Recurrent Administration Costs ($bn)	0.50	0.52	0.54	0.56	0.59	0.61	0.63
Total OPS Costs ($bn)	15.8	16.42	17.04	17.66	18.29	18.91	19.53

Year	2001	2006	2011	2016	2036	2056
Pension Payment($bn)	19.4	21.3	22.7	27.6	53.3	59.1
Recurrent Administration Costs ($bn)	0.65	0.75	0.84	1.14	1.39	2.06
Total OPS Costs ($bn)	20.05	22.05	23.54	28.74	54.69	61.16

Pension outgo as a percentage of assessable income for contribution purposes

9.3 The following chart shows the cost of the OPS as a percentage of assessable income, i.e. the contribution rate. This rate is the **total** contribution from employer and employee together, not individually.

Year	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*
Pension Payment as % of income	2.92	2.80	2.73	2.66	2.59	2.55	2.50
Recurrent Administration Costs as a % of income	0.13	0.12	0.12	0.12	0.12	0.12	0.11
Contribution Rate	3.05	2.92	2.85	2.78	2.71	2.67	2.61

Year	*2001*	*2006*	*2011*	*2016*	*2036*	*2056*
Pension Payment as % of income	2.45	2.19	2.00	2.15	2.49	1.53
Recurrent Administration Costs as a % of income	0.11	0.10	0.10	0.12	0.09	0.07
Contribution Rate	2.56	2.29	2.10	2.27	2.58	1.60

9.4 In Chapter 6, Government has indicated that it would be prepared to make a capital injection of $10 billion as a set-up fund for the OPS. This additional substantial contribution will be able to cover the setting up cost and enable early payment be made to those eligible once the legislative and executive framework is in place. It will also contribute towards keeping down the total cost of the OPS. It should, for example, be able to offset the administration cost in the initial years through the income generated from the fund alone, thus bringing the total contribution rate down to within the 3% level.

Recommended contribution rate

9.5 Taking into account all the above observations and recommendations, it is **recommended** that **employers and employees should each contribute 1.5% of the employees' assessable income.** For owners of unincorporated businesses, including the self-employed, they will be required to contribute at 3%.

Accumulated reserves

9.6 It is estimated that a reserve amounting to about one year's pension payment will be built up within the first ten years. This will rise to about five years' pension payment in slightly more than twenty years. The reserve will continue to rise unless there are changes to the real level of pension benefit or the rate of contribution. This will provide an additional safeguard for the OPS against unforeseen circumstances and also against the risk of rising contributions.

CHAPTER 10
TAX DEDUCTIBILITY AND INVESTMENT POLICY

Tax deductibility for OPS contributions

10.1 At present there is a limit of 15% of emoluments in respect of allowing tax deductibility for employers' contributions to registered retirement schemes. It is **recommended** that this concession be extended to employers' contributions to the OPS, as it is a legitimate cost of doing business. The revenue forgone as a result is estimated to be $770 million at 1994 levels. This is an additional cost to the Government.

10.2 Employees' contributions to registered retirement schemes are not tax-deductible. This is common practice elsewhere i.e. employees' contributions to old age pension schemes are not normally tax deductible. To allow tax-deductibility of employee contributions would cost between $583 to $787 million in 1994 dollars in terms of revenue forgone. The financial implications are substantial.

OPS Pension as taxable income

10.3 Under current legislation, all pension payments are regarded as assessable income for tax purposes. If OPS pensions are to be exempted, then there is a potential loss of revenue to the Government. However, the percentage of persons aged 65 or above who pay tax is unlikely to be large, and the revenue forgone by excluding the OPS benefits from taxation would be insignificant. Accordingly, it is **recommended** that the OPS pension should not be subject to salaries tax.

Investment options

10.4 It will be necessary to invest the start-up fund, the assets as well as the reserves that build up under the OPS. Government has already stated that all OPS funds will be kept in a separate account and will only be used for the OPS. Looking at the social security systems in other countries, the most commonly held investments are government borrowing in the form of bonds and treasury bills. However, in the case of Hong Kong, Government seldom runs a deficit. Fixed income securities that are available would be the Exchange Fund notes issued by Government, deposits with financial institutions, and bonds issued by foreign governments and the private sector.

Investment policy

10.5 As one of the reasons for the reserve is to provide contingency funding for the OPS, it is likely that the majority of its assets will be restricted to relatively liquid and safe investments. It is **recommended** that further consideration will be given to the investment policy once the policy on funding has been determined.

CHAPTER 11
THE WAY FORWARD

As stated in Chapter 1, the OPS will be introduced subject to three provisos. A decision on whether or not to proceed with the proposed scheme will be made before the end of 1994. If the OPS is to go ahead, then steps will be taken to introduce the necessary legislation at the earliest possible date, Reasonable notice will be given before this legislation is brought into effect so that all concerned will have sufficient time to make arrangements to comply with the legal requirements.

Areas examined in the feasibility study

The main areas covered by the feasibility study include -

(a) how an OPS could be established in practice, including the machinery required to administer and enforce it, and the mechanism for collecting contributions and making payments. Specific advice was required as to how the self-employed and those persons in receipt of regular income but who are currently outside the tax net can be brought into the OPS as contributors;

(b) residence qualifications for potential OPS contributors and beneficiaries. This advice would also consider whether migrant workers, e.g. those employed in Hong Kong under the General Labour Importation Scheme, or foreign domestic helpers should participate in the scheme;

(c) whether pensions should be paid to persons who have emigrated, including those who choose to settle in mainland China after retirement;

(d) whether potential beneficiaries who are non-contributors to the OPS should have to complete an income declaration or means test before qualifying for pension benefits;

(e) how the Scheme would replace the existing benefits under the Normal Old Age Allowance and Higher Old Age Allowance, and relate to benefits provided under the Comprehensive Social Security Assistance Scheme and the Disability Allowance;

(f) the necessary contribution level, and the type of income that should be included for the purpose of calculating contributions to the Scheme;

(g) the cost of the Scheme to taxpayers where the Government is required to contribute;

(h) the implications of setting a minimum income level for the purpose of contributing to the OPS, and of setting a ceiling on the amount that needs to be contributed; and

(i) the implications on participants in voluntary and statutory retirement schemes.

Cost implications of setting the eligibility age at 60

In Chapter 5 we recommend that pension benefits should be paid from the age of 65. The following charts show the impact on pension payment amounts and contribution rates if pension benefits were paid at age 60.

Pension Commences at Age 60 - Pension Payment ($ Billion)

Year	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*
Net Pension Payment	11.7	11.9	12.3	12.7	13.1	13.5	13.9
Net Pension Payment if Pension Commences at Age 60	18.3	18.7	19.0	19.4	19.8	20.2	20.5

Year	*2001*	*2006*	*2011*	*2016*	*2036*	*2056*
Net Pension Payment	14.3	15.8	16.7	20.4	39.5	43.7
Net Pension Payment if Pension Commences At Age 60	20.8	22.3	27.6	33.8	54.0	59.8

Pension Commences at Age 60 - % Earnings

Year	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*
Net Contribution Rate	2.9	2.8	2.7	2.7	2.6	2.5	2.5
Net Contribution Rate if Pension Commences at age 60	4.7	4.5	4.3	4.2	4.0	3.9	3.8

Year	*2001*	*2006*	*2011*	*2016*	*2036*	*2056*
Net Contribution Rate	2.4	2.2	2.0	2.2	2.5	1.5
Net Contribution Rate if Pension Commences at age 60	3.6	3.2	3.4	3.7	3.6	2.2

Estimated number of persons aged 65 or above and their proportion in the population.

Year	*1994*	*1996*	*2016*	*2036*	*2056*
No. ('000)	560	610	1000	1900	2200
As percentage of the population	9.5%	10.0%	12.5%	19.5%	18.5%

Note: The size and structure of the population are constantly changing subject to fertility, mortality and migration factors. The estimated figures for the future population are the best available at the time when the study is made. It should be borne in mind that major changes may occur in the population situation or trend which call for these figures to be revised.

Pension increase with earnings rather than with the Composite Consumer Price Index

In Chapter 6 we recommend that pension increases should be linked to rises in the Composite Consumer Price Index. An alternative would be to link pension increases to the average rate of wage increase during the previous calendar year. The following charts show pension payments and net contribution rates for this alternative.

Pension Increases with Earnings instead of Composite CPI -

Pension Payment ($ Billion)

Year	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*
Net Pension Payment	11.7	11.9	12.3	12.7	13.1	13.5	13.9
Net Pension Payment with Earnings Indexation	11.7	12.7	13.8	15.0	16.1	17.2	18.4

Year	*2001*	*2006*	*2011*	*2016*	*2036*	*2056*
Net Pension Payment	14.3	15.8	16.7	20.4	39.5	43.7
Net Pension Payment with Earnings Indexation	19.6	25.0	29.7	40.0	114.8	189.1

Pension Increases with Earnings instead of Composite CPI - % Earnings

Year	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*
Net Contribution Rate	2.9	2.8	2.7	2.7	2.6	2.5	2.5
Net Contribution Rate with Earnings Indexation	2.9	3.0	3.0	3.1	3.2	3.2	3.3

Year	*2001*	*2006*	*2011*	*2016*	*2036*	*2056*
Net Contribution Rate	2.4	2.2	2.0	2.2	2.5	1.5
Net Contribution Rate with Earnings Indexation	3.3	3.5	3.5	4.2	7.2	6.6

Cost implications of inclusion of death benefits

Death Benefits Before & After Pension Commencement -

% Earnings

Year	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*
Net Contribution Rate	2.9	2.8	2.7	2.7	2.6	2.5	2.5
Death Benefit as a % of Earnings	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net Contribution Rate with Death Benefits	3.2	3.0	2.9	2.9	2.8	2.7	2.7

Year	*2001*	*2006*	*2011*	*2016*	*2036*	*2056*
Net Contribution Rate	2.4	2.2	2.0	2.2	2.5	1.5
Death Benefit as a % of Earnings	0.2	0.2	0.1	0.2	0.1	0.1
Net Contribution Rate with Death Benefits	2.6	2.3	2.1	2.3	2.6	1.6

Note: the figures may not all add up due to the effect of rounding up.

Cost implications of setting a ceiling

(at HK$500,000 per annum)

on assessable income for contribution purposes

Earnings Ceiling - % Earnings

Year	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*
Net Contribution Rate	2.9	2.8	2.7	2.7	2.6	2.5	2.5
Net Contribution Rate with Ceiling Increasing with Composite CPI	3.2	3.1	3.0	2.9	2.9	2.8	2.8

Year	*2001*	*2006*	*2011*	*2016*	*2036*	*2056*
Net Contribution Rate	2.4	2.2	2.0	2.2	2.5	1.5
Net Contribution Rate with Ceiling Increasing with Composite CPI	2.8	2.5	2.3	2.6	3.2	2.3

Cost implications for Government to contribute one-third of the total cost of the OPS

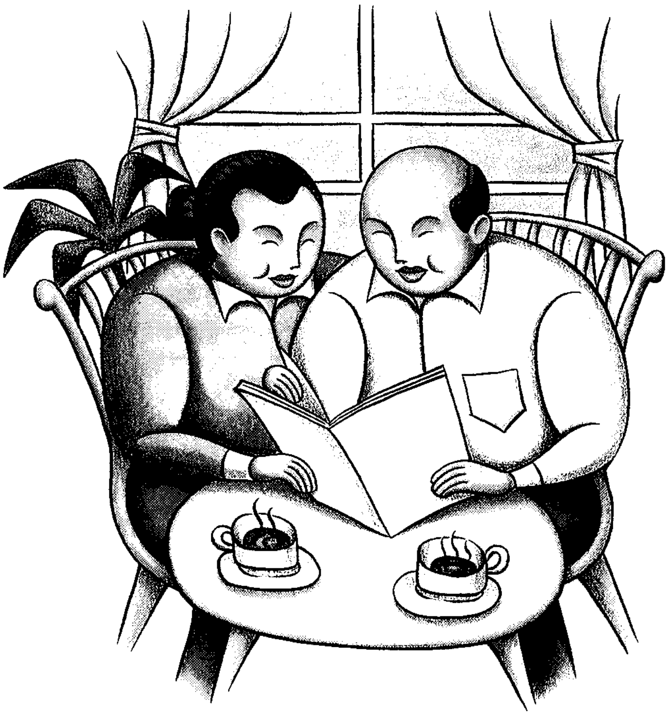
33 1/3% Contribution from Government

Impact on Tax Rates

Year	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*
% point increase in tax rate (both Standard Salaries Tax Rate and Corporate Profits Tax Rate)	0.5	0.4	0.4	0.4	0.4	0.4	0.4

Year	*2001*	*2006*	*2011*	*2016*	*2036*	*2056*
% point increase in tax rate (both Standard Salaries Tax Rate and Corporate Profits Tax Rate)	0.4	0.3	0.3	0.4	0.5	0.4

AN OLD AGE PENSION SCHEME



Why You Need It
How You Will Benefit

Introduction

Government is proposing to implement an Old Age Pension Scheme which it believes is best suited to the needs of the people of Hong Kong.

The scheme is outlined in a detailed consultation paper, on which the Government is now inviting public views.

This booklet highlights the more important points in the paper, and aims to help you understand how the proposals will benefit you.

The proposed Old Age Pension Scheme is not restricted to those who have worked, or to those who have contributed to it. The scheme will cover all eligible elderly persons, and is designed to provide them with a reasonable degree of financial security in their old age.

I What You Should Know About Eligibility

1. Is everyone eligible?

If you are 65 or older, and have been ordinarily resident in Hong Kong for a continuous period of at least seven years prior to the date of application, you will be eligible for an old age pension. If you are 65 to 69, and you have not contributed to the scheme, you will need to complete a declaration of your assets when you apply.

2. How do I apply?

Simple application procedures will be announced later.

3. Will I qualify even if I have never worked?

Eligibility is based on age and length of residence in Hong Kong prior to making an application for the pension. If you are over 65 and have lived in Hong Kong for a continuous period of seven years prior to the date of application, you will be eligible, whether or not you have ever worked. If you are 70 or above, you will qualify without having to declare your assets, but if you are between 65 and 69 you will need to complete an assets declaration.

4. I have already retired. When can I apply for my pension?

If you are aged 65 or above, you can apply at any time after the scheme is implemented.

5. I am receiving the Normal Old Age Allowance but have not completed seven years' residence in Hong Kong. What will happen to my benefits?

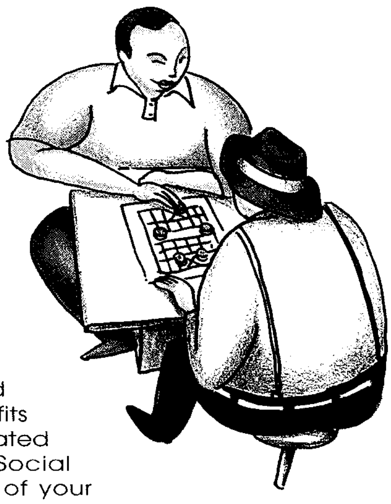
Under transitional arrangements, if you are already in receipt of the Normal Old Age Allowance or the Higher Old Age Allowance, but you do not yet meet the residential requirements for the Old Age Pension Scheme, you will still be eligible to apply for a pension.

6. What will happen to my existing Old Age Allowance?

All existing allowances will be replaced by the Old Age Pension Scheme. Although beneficiaries will have to apply for the old age pension, there will be no interruption of payments.

7. What happens if my pension application is rejected once my existing allowance has been stopped?

This will not be possible. Government will guarantee that no one is worse off under the Old Age Pension Scheme than under the present system.



8. I am over 65 and now receive the standard rate under the Comprehensive Social Security Assistance Scheme. Will this continue once the Old Age Pension Scheme is introduced?

The payment in respect of the standard rate provision will be subsumed by the Old Age Pension Scheme. The pension benefits that you receive subsequently will be treated as income under the Comprehensive Social Security Assistance Scheme. If the level of your recognised needs is greater than your total resources, you will continue to receive payments under the Comprehensive Social Security Assistance Scheme. As a matter of policy, no one will receive less from an old age pension than they receive under the existing system.

9. What about the special grants/supplement provision under the Comprehensive Social Security Assistance Scheme?

These will remain available to qualified applicants.

10. Will the introduction of the Old Age Pension Scheme affect the Disability Allowance?

The Disability Allowance will not be affected. It will continue to be paid on the same conditions as before.

11. Without a bank account, how will I receive my Old Age Pension benefits?

The Old Age Pension Scheme Administration will make arrangements for alternative means of payment in such cases.

12. My aged father cannot make the application on his own because he is ill. May I apply on his behalf?

The Old Age Pension Scheme Administration will arrange for you to act as his agent, and apply for a pension on his behalf.

II What You Should Know About Pension Benefits

1. How much will the pension be?

In 1994 dollars it will be HK$2,300 a month.

2. Will it remain fixed at that amount for the rest of my life?

No, the pension is designed to be inflation-proof. It will be adjusted annually to take account of any increase in the cost of living.

3. Is it possible to receive my pension before I am 65?

No.

4. Can I take my pension as a lump sum?

The aim of the scheme is to provide financial security for people in their old age. This is best achieved through regular monthly payments, so that there will be no provision for taking some or all of the benefits as a lump sum.

5. What happens if I emigrate before I reach 65?

If you emigrate before the age of 65, you will no longer be eligible for a pension.

6. What happens if I emigrate after I reach 65?

If you emigrate after the age of 65, your pension will cease after 180 days.

7. Am I eligible for a pension if I return to Hong Kong at the age of 65 after living overseas for many years?

You will have to stay in Hong Kong for at least seven years following your return before you can apply for a pension.

8. Do I have to live permanently in Hong Kong in order to keep my pension?

You are permitted to be absent from Hong Kong for up to 180 days a year, but Hong Kong must remain your permanent declared place of residence.

9. What happens if I die before the age of 65? Can the benefits be transferred?

No. It is not possible to transfer the benefits.

10. Will my spouse receive a pension if I die soon after my own pension starts?

There are no plans to introduce a pension for spouses. However he/she should be entitled to a pension in his/her own right from the age of 65, subject to eligibility.

III What You Should Know as an Employee

1. Do I have to participate in the Old Age Pension Scheme?

Yes, if your income meets or exceeds the prescribed minimum of HK$4,000 per month (Please see IV: 4). This applies whether you are in employment, and under the age of 65, or self-employed.

2. Can I claim exemption if I am already participatina in a registered occupational retirement scheme?

No, you will still need to contribute to the Old Age Pension Scheme for tne additional protection that it provides.

3. As a civil servant, covered by the Civil Service Pension Scheme, will I still have to participate in the Old Age Pension Scheme?

Yes, civil servants must participate in the same way as other employees, and will receive the additional benefits of doing so.

4. I am an expatriate worker. Do I have to contribute to the Old Age Pension Scheme?

If your income is HK$4,000 per month or more, you will need to contribute to the Old Age Pension Scheme.

5. What about contract workers such as foreign domestic helpers or workers imported under the General Labour Importation Scheme?

Foreign Domestic Helpers must participate in the scheme, but workers imported under the General Labour Importation Scheme will not participate as they cannot normally stay in Hong Kong for longer than six years.

6. What if I am paid on a daily basis and work for more than one employer?

You will participate in respect of each of your jobs. It makes no difference whether you are paid on a monthly, daily or hourly basis.

7. What if I am self-employed?

You will still need to participate in the scheme, and pay both the employer and employee contributions.

IV What You Should Know About Contributions

1. How do I contribute?

If you are an employee, your employer will deduct your contribution from your salary before you receive it. He will be responsible for remitting that amount, together with his share of the contribution, to the Old Age Pension Scheme Administration.

2. How much is the contribution?

1.5% of your assessable income.

3. What is assessable income?

Assessable income is income received by a person in Hong Kong from any office or employment. It excludes investment income and fringe benefits, but includes the value of living quarters provided by an employer.

4. What if I am on a low income?

If you earn less than HK$4,000 a month, you will not be required to contribute to the scheme from your salary. However your employer will still have to meet his share of the contribution towards the benefits you will eventually be entitled to receive at the eligible age.

5. What happens if my income fluctuates from month to month?

You will need to contribute only for those months when your income reaches or exceeds the minimum level of HK$4,000 per month. Your employer will have to pay the employer's share of the contribution regardless of your income level.

6. Do I have to pay the percentage contribution on all my income?

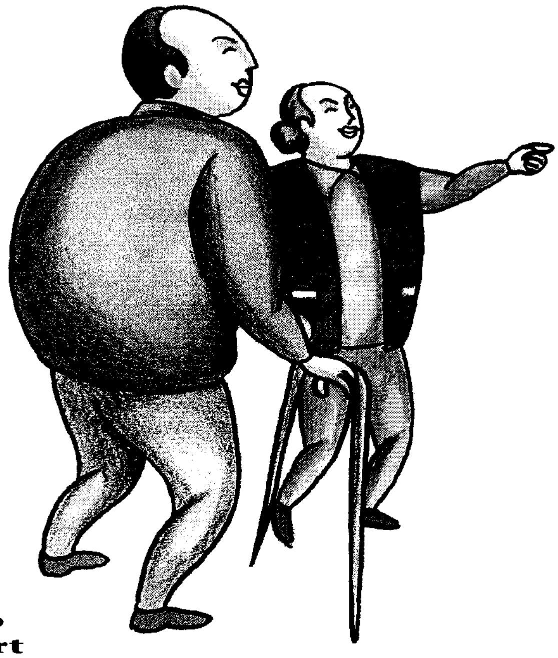
Yes. There is no ceiling proposed for contributions to the scheme.

7. What happens if I change jobs?

You will continue to participate. Your new employer will make contributions on your behalf in the same way as before.

8. What happens if I stop working?

You will not have to contribute to the scheme if you are no longer employed.



9. Will my contributions be tax-deductible?

No.

10. Will my pension be subject to salaries tax?

No, the pension will be tax-free.

11. Do I have to stop working once I start earning a pension?

If you are aged 65 or more, and qualify for a pension, you may continue working while obtaining pension benefits. You will not have to contribute a percentage of your income towards the scheme.

V What You Should Know if You Are Self Employed

1. Do I have to participate in the scheme?

Yes. If your assessable income is HK$4,000 a month or more you will need to contribute the total amount required both as employer and employee (i.e. 3% of assessable profits).

2. When and how do I contribute?

You will contribute once a year. At the time when you file your profits tax return you will also be required to estimate your liability as a contributor to the Old Age Pension Scheme, based on your assessable profits. The amount calculated should be submitted to the Old Age Pension Scheme Administration.

3. What if I own my business and employ others?

You will contribute annually on your own behalf, and quarterly on behalf of your employees.

4. If part of my income is from dividends, am I required to pay contributions based on those as well?

Income from investments or dividends is not liable for contributions to the scheme. However if rental income forms part of your assessable profit, that income would be liable.

VI What You Should Know as an Employer

1. Do my employees have to participate?

Except for those who are brought in under the General Labour Importation Scheme, all employees below the age of 65 must participate in the scheme.

2. How much must I contribute?

1.5% of your employees' assessable income.

3. How do I collect my employees' contributions?

You must deduct their contributions before their salaries are paid to them, and send these, together with your contribution as an employer, to the Old Age Pension Scheme Administration.

4. How regularly must these sums be sent to the Administration?

Once a quarter, or more frequently for larger companies.

5. Some of my employees earn less than the prescribed minimum. Do I still make deductions from their salaries?

You should not make any deduction from the salary of an employee earning less than the minimum of HK$4,000 a month. However you will still have to pay the employer's contribution for that employee.

6. I am already providing an occupational retirement scheme for my employees. Can they select which they prefer?

Participation in the Old Age Pension Scheme is mandatory,

7. If participation in the Old Age Pension Scheme is mandatory, can I terminate the occupational retirement scheme I already provide for my employees?

That is for you to decide in consultation with your employees.

8. Will the Long Service Payment Scheme be scrapped?

No.

9. How can I get help in calculating the amount I should deduct for my employees' contributions?

Help will be made available through the Old Age Pension Scheme Administration.

10. Will my contributions to the Old Age Pension Scheme be tax-deductible?

Your contributions on behalf of your employees will be tax-deductible. But any contributions on your own behalf will not.

VII General Information

1. Where can I get more information on the Old Age Pension Scheme?

By obtaining a copy of the consultation paper entitled "An Old Age Pension Scheme for Hong Kong", which is available from any CNTA District Office, any branch office of the Labour Department, any district office of the Social Welfare Department, any housing estate office or any Post Office.

2. Where can I submit my views?

Please write to

The Secretary for Education and Manpower

9/F West Wing

Central Government Offices

Lower Albert Road

Hong Kong

4. Is there a deadline for submitting comments?

All comments should be submitted by 31 October 1994.