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Retirement Protection System in Selected Places

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Executive summary

1. This research report studies the retirement protection system implemented in Australia, New Zealand, Spain, Taiwan and Hong Kong in terms of:

   (a) governing legislation and responsible authorities;

   (b) salient features such as eligibility requirements, coverage and amount of pension payable;

   (c) funding sources and amount of contributions required;

   (d) adequacy and sustainability of the system;

   (e) reviews conducted (if any); and

   (f) reform measures proposed/undertaken.

2. The study also analyzes the extent to which the retirement protection system in the selected places fits in with the five-pillar model put forward by the World Bank in 2005. The five pillars are:

   (a) a non-contributory zero pillar – basic public pension plan financed by the government;

   (b) a mandatory first pillar – mandatory earnings-related public pension plans;

   (c) a mandatory second pillar – mandatory occupational schemes or private pension plans;

   (d) a voluntary third pillar – voluntary savings for retirement, through voluntary contributions to occupational/private pension plans or other sources; and

   (e) a voluntary fourth pillar with access to family support, formal social security programmes and individual assets.

3. Based on the World Bank's five-pillar model, the structure and performance of the retirement protection system in the places studied can be summarized in **Table** below:

Table − Retirement protection system in the selected places

Pillar	Objective	Financing	Programme features	Retirement protection system: Australia	New Zealand	Spain	Taiwan	Hong Kong
0	Poverty alleviation. Income distribution.	Government revenue	Universal or means tested	✓	✓ Strong	✓	✓	✓
1	Income replacement. Income redistribution.	Contributions	Mandatory and publicly managed	×	×	✓ Strong	✓ Strong	×
2	Maintaining a similar pre-retirement standard of living through savings.	Contributions	Mandatory occupational/ privately managed scheme	✓ Strong	✓	×	✓ Strong	✓
3	Maintaining a similar pre-retirement standard of living through enhanced savings.	Private savings	Voluntary and privately managed	✓	✓	✓	✓	✓
4	Enhancing protection where possible.	Financial and/or non- financial assets	Voluntary and privately/ informally managed	✓ Strong (via home ownership)	✓	✓	✓	✓

Australia

4. Australia has established a multi-pillar retirement protection system, albeit without the protection of the first pillar. A tax-financed public pension scheme (the Age Pension) serves as the zero pillar, while a compulsory employer contribution to occupational pension schemes (the Superannuation Guarantee) constitutes the second pillar. Private savings through voluntary contributions to occupational schemes, shares and other private savings form the third pillar. The fourth pillar, particularly home ownership, represents an important contributor to financial security in retirement and non-superannuation savings. In Australia, the home ownership rates have been fairly stable at around 70% for many decades.

5. Australia's retirement protection system seeks to accommodate the needs of retirees with different circumstances. The Age Pension provides a safety net to those elderly with no or modest income/assets. The Superannuation Guarantee and voluntary savings schemes provide the means for individuals to secure a better income in retirement than the minimum income provided by the Age Pension.

6. The problem of ageing population is putting pressure on the sustainability of Australia's pension system. In response, the Australian government will increase the minimum qualifying age for the Age Pension from the current 65 to 67 by 2023 to boost the sustainability of the public pension. In addition, it has sought to reform its nearly 20-year-old superannuation system with a proposal to increase the employer contribution rate, currently at 9% to 12% between the period of FY2013-2014 and FY2019-2020.

7. In November 2011, the Australian government introduced a bill requiring those employees who do not choose a superannuation fund of their own choice to make their superannuation contributions to a low-cost default product known as MySuper. Currently, they are required to join the superannuation fund chosen by their employers. MySuper has a single diversified investment strategy and limits the amount and types of fee a trustee can charge. The Treasury estimates that MySuper would result in a fee reduction of around 40% for an average member, thereby boosting the adequacy of occupational retirement scheme for retirement life.

New Zealand

8. New Zealand's retirement protection system has all along maintained a plain uncomplicated structure such that the current regime is considered one of the simplest models among developed countries. The system primarily consists of New Zealand Superannuation (a non-contributory public pension) as the zero pillar, and the KiwiSaver scheme and other occupational pensions as a second-cum-third pillar measure.[1] New Zealanders aged between 18 and 65 starting a new job are automatically enrolled in KiwiSaver scheme. They can choose to opt out during the second and eighth week of starting a new job.

9. New Zealand's public pension system differs in principle from those adopted in many other developed countries. New Zealand Superannuation is an individual (not a family) entitlement based on individual qualification. In addition, it is a universal payment aiming at providing a basic yet adequate standard of living for those aged 65 or above, thereby preventing poverty in old age. Indeed, New Zealand Superannuation is among the most generous public pension schemes in the Organization for Economic Co-operation and Development countries, as the replacement rate for a public pensioner earning half of the average earnings before retirement reached 77.5% in 2010.[2]

10. New Zealand Superannuation is funded on a pay-as-you-go basis from government revenue. As a pre-emptive measure, the New Zealand government established a buffer fund, the New Zealand Superannuation Fund, in 2001 to make provision for the expected surge in pension costs, at a time when demographic conditions are still favourable and the expenditure on public pension remains relatively low. The New Zealand Superannuation Fund operates as an investment fund that receives and invests contributions from the government.

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1 According to the Organization for Economic Co-operation and Development (2008), KiwiSaver is a *quasi-mandatory* occupational pension scheme. As such, it can be considered as the second-cum-third pillar of New Zealand's retirement protection system.

2 In this research report, the replacement rates quoted for Australia, New Zealand and Spain are based on the figures published in the Organization for Economic Co-operation and Development's *Pensions at a Glance 2011: Retirement-income Systems in OECD and G20 Countries.* Using the same source of data facilitates the comparison of the performance of the pension system in Australia with that in New Zealand and Spain.

11. Employees enrolled in a KiwiSaver savings plan can choose a contribution rate of 2%, 4% or 8% of their gross salary. They are entitled to a compulsory matching employer contribution capped at 2% of their gross salary. From 1 April 2013, the minimum employee contribution and the compulsory matching employer contribution to KiwiSaver will be both increased from 2% to 3%, thereby making the KiwiSaver scheme more sustainable for the future.

<u>Spain</u>

12. Spain has adopted a multi-pillar retirement protection system, albeit without the protection of the second pillar. Non-contributory Public Pension Scheme, being the zero pillar, offers government-funded pension to low-income elderly should they meet the means test and residency requirements. There are also the first and third pillars for replacement of pre-retirement income, which facilitates the smoothing of consumption from one's working life into retirement.

13. The contributory Public Pension Scheme serves as a strong first pillar scheme in Spain that provides generous benefits to the working population. It is compulsory for employers and employees to make contributions to the Scheme with contribution rates varying with employees' occupation. A pensioner can apply for a means tested government-funded pension supplement to top up his or her pension receivable to the minimum pension set annually by the government.

14. While there is no second pillar of protection, voluntary occupational and private pension schemes constitute the third pillar. In fact, due to the generosity of the Public Pension Scheme, both voluntary occupational and private pension schemes play a relatively insignificant role in retirement protection.

15. As a pre-emptive measure to pre-fund the future costs of contributory Public Pension Scheme, the Spanish government established the Social Security Reserve Fund in 2000 to receive and invest the surplus left after the payout of retirement benefits from the contributions accumulated. Nevertheless, increasing life expectancy and deteriorating public finance have prompted the Spanish government to consider further measures to improve the financial sustainability of its Public Pension Scheme, including raising the retirement age and extending the contributory period required to receive a full pension.

Taiwan

16. Taiwan's retirement protection system matches the World Bank's five-pillar model. The zero pillar provides the elderly with a minimal level of protection through the non-contributory basic pension payable under the government-funded National Pension Programme. Recipients are required to meet the means test and residency requirements. There are also the first, second and third pillars which provide for sustainable post-retirement consumption.

17. Taiwan has established a comprehensive first pillar scheme featuring the contributory pension of the National Pension Programme and the contributory Labor Insurance Scheme. The objective of the National Pension Programme is to provide pubic pension to those non-employees who are not adequately covered by the social insurance system. The government appropriated a lump sum grant as the seed money to kick-start the Programme. After that, the funding sources of the Programme come from the premiums received, government subsidies and investment return. At the same time, the contributory Labor Insurance Scheme provides various kinds of benefits (e.g. old age pension and disability benefits) to insured persons. The premiums of the Scheme are paid jointly by employees, employers and the government.

18. The mandatory Labor Pension Programme, which serves as the second pillar, is an occupational pension provided by employers to their employees. It features a portable individual labour pension account covering most of the employees in Taiwan. Employers are required to contribute not less than 6% of their employees' monthly salary to the Programme. Employees may opt to contribute up to 6% of their monthly salary on top of the compulsory employer contribution for saving purposes. The voluntary employee contribution constitutes the third pillar of the retirement protection system.

19. Taiwan has implemented the following measures to ensure the sustainability of its public pension system: (a) paying the accrued old age pension benefits provided under the contributory Labor Insurance Scheme monthly, instead of a lump sum payment upon retirement; and (b) adopting a gradual and progressive increase in the contribution rates for the National Pension Programme and Labor Insurance Scheme.

Hong Kong

20. Hong Kong does not have a first pillar public pension scheme to provide universal retirement protection for the elderly. Instead, the Government has put in place non-contributory social security programmes as the zero pillar to provide means tested financial assistances to the needy elders. For example, Comprehensive Social Security Assistance provides a safety net of last resort for the elders who are unable to support themselves financially and Old Age Allowance offers a monthly cash allowance to eligible elders for meeting special needs arising from old age.

21. The privately-managed Mandatory Provident Fund ("MPF") system has been established as the second pillar to provide retirement protection for the working population. Employers and employees are each required to contribute 5% of the employees' monthly income to the MPF schemes. MPF scheme members may withdraw their accrued benefits as a lump sum from the schemes at the age of 65. Moreover, voluntary occupational retirement schemes are available as the third pillar for employees to accumulate more retirement savings.

22. Unlike other places studied, Hong Kong does not have a public pension system. Therefore, the issue of adequacy and sustainability of public pension system does not arise in Hong Kong. However, there have been concerns over the adequacy of the social security schemes, being the zero pillar of retirement protection system, on protecting the needy elderly in their retirement life. Some Members of the Legislative Council, non-governmental organizations, policy think tanks and academics have been urging the Government to strengthen the retirement system by establishing a universal retirement protection scheme. Various retirement protection models have been proposed to the Government for consideration. Without ruling out the feasibility of implementing a new universal retirement scheme, the Government has reiterated its stance of setting its current priority on enhancing the existing social security system and the MPF system.

Retirement Protection System in Selected Places

Chapter 1 – Introduction

1.1 Background

1.1.1 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[3] and voluntary private savings, forms the three-pillar model that the World Bank proposed in 1994 for retirement protection.[4]

1.1.2 In recent years, the MPF system has undergone a number of changes to improve its operation and protection of participating members. 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 concerns over the adequacy of MPF to secure the basic needs of retirees.

1.1.3 The adequacy of the MPF system have been discussed in the Legislative Council on many occasions, particularly with respect to the issues of the ageing population and the efficacy of the three-pillar model in providing sufficient income support for 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 Government to consider the establishment of a mandatory contributory pay-as-you-go Old Age Pension Scheme to provide a better protection for the 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.

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[3] The social benefits for the elderly include Comprehensive Social Security Assistance, Old Age Allowance and Disability Allowance.

[4] The three pillars are: (a) mandatory non-contributory and publicly-managed defined benefit schemes, (b) mandatory contributory and privately-managed defined contribution schemes, and (c) voluntary occupational or personal savings plans.

1.1.4 More recently, a motion on comprehensively reviewing the MPF system to include setting up a universal retirement protection scheme was passed at the Council meeting on 1 December 2010. Subsequently, the efficacy of the three-pillar model for retirement protection and the proposal of implementing a universal retirement protection system were discussed at the meetings of the Panel on Welfare Services held on 18 December 2010 and 10 January 2011 respectively. 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.

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

1.2 Selection of overseas places

1.2.1 The Greek and Spanish retirement protection systems are both characterized by a generous public pension scheme and the ensuing limited role played by their private pension scheme. In view of the similarity between these two systems and scanty information available in English on the operation of the Greek system, the Research Division proposed in its research outline to substitute Australia for Greece. Australia has a sustainable pension system and the distinctive features of which should provide useful reference to Hong Kong.

<u>Australia</u>

1.2.2 The retirement protection system in Australia is a multi-pillar arrangement consisting of a tax-financed public pension (i.e. the Age Pension), a compulsory employer contribution to private occupational schemes (the Superannuation Guarantee) and voluntary private savings. The Age Pension is payable to all elderly Australians who satisfy residency, age and means test requirements. Around 80% of Australian retirees currently receive the Age Pension, rendering it one of the widest coverage public pension schemes in the Organization for Economic Co-operation and Development ("OECD") countries.

1.2.3 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 an employee's earnings) to superannuation funds. The Age Pension and Superannuation Guarantee together benefit low-income earners in particular, as they boost the replacement rate[5] for a pensioner earning half the average earnings before retirement being 73.3% in 2010.

New Zealand

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

1.2.5 While the New Zealand Superannuation may be adequate for some low-income earners, higher income earners can make additional private provision for their retirement via contribution to a quasi-mandatory occupational pension scheme (i.e. known as KiwiSaver). Employees can contribute 2%, 4% or 8% of their gross salary to the KiwiSaver scheme, while employers are required by law to contribute at least 2% of participating employees' gross salary.

1.2.6 New Zealand is expected to face the problem of an ageing population in the near future and its gross pension costs are forecast to rise from the current 5% of Gross Domestic Product ("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 government, and it is not allowed to withdraw any capital from the Fund to finance the pension costs until 1 July 2020.

5 A replacement rate compares an individual's spending power before and after retirement. For example, a replacement rate of 75% means that an individual would be able to spend AUS$75 in retirement compared with AUS$100 before retirement.

Spain

1.2.7 In Spain, the retirement protection system is a multi-pillar system consisting of the mandatory Public Pension Scheme and the voluntary occupational and private pension schemes. The Public Pension Scheme consists of two components: contributory Public Pension Scheme and non-contributory Public Pension 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 Public Pension Scheme, a pensioner will receive a means tested pension supplement if his or her pension is less than the minimum pension set annually by the Spanish government.

1.2.8 Faced with the increasing life expectancy and deteriorating public finance, the Spanish government has proposed measures to improve the financial sustainability of its retirement protection system by raising the retirement age and extending the contributory period required to receive a full pension.

1.3 Expansion of research coverage

Taiwan

1.3.1 During the deliberation of the proposed research outline at the meeting held on 19 July 2011, the Subcommittee on Retirement Protection requested the Research Division to include Taiwan and/or the Mainland in the study for comparison purposes. After conducting preliminary research on these two jurisdictions, the Research Division has selected Taiwan for the study because it shares similar socio-economic characteristics with Hong Kong. In particular, they are both small market economies and faced with the need to address the problem of an aging population. Furthermore, the pension system in Taiwan is more comprehensive and readily available in the public domain.

1.3.2 Taiwan's retirement benefits system is a multi-pillar arrangement, comprising:

(a) public pension: consisting of the National Pension Programme and tripartite contributory Labor Insurance Scheme (with contributions from the government, employers and employees);

(b) corporate pension: mandatory employers' contributory Labor Pension Programme provided by employers to employees; and

(c) voluntary contribution to the occupational and private pension plans to enable individuals to save more for their retirement benefits.

1.3.3 In comparison, the Mainland's pension system primarily consists of a public pension scheme and a mandatory pension scheme contributed by both employees and employers. The Mainland government has put its focus on increasing the coverage of the pension schemes in the rural areas, rather than on addressing the problem of an ageing population. This policy has to do with the under-development of retirement protection schemes in the rural areas.

1.4 Scope of the research

1.4.1 This research report focuses on studying the following aspects of the retirement system in the selected places:

(a) governing legislation and responsible authorities;

(b) operation of the system with respect to its eligibility requirements, 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.

1.4.2 The study also covers the extent to which the retirement system in the selected places fits in with the five-pillar model put forward by the World Bank in 2005. The five pillars are:

(a) a non-contributory zero pillar – basic public pension plan financed by the government with the objective of providing the elderly with a minimal level of protection;

(b) a mandatory first pillar – mandatory earnings-related public pension plans;

(c) a mandatory second pillar – mandatory occupational schemes or private pension plans;

(d) a voluntary third pillar – voluntary savings for retirement, through voluntary contributions to occupational/private pension plans or other sources; and

(e) a voluntary fourth pillar – access to informal support (such as family support), formal social programmes (such as health care or housing), and individual assets (such as home ownership and reverse mortgages).

1.5 Methodology

1.5.1 This research adopts a desk research method, which involves Internet research, literature review, documentation analysis and correspondence with relevant authorities.

Chapter 2 – Australia

2.1 Historical development

2.1.1 The provision of retirement income in Australia dates back to 1908, when the Commonwealth government passed the *Invalid and Old Age Pension Act* to introduce a flat-rate public pension for the retired and invalid persons.[6] Before that, without a social security system in place, charitable relief had been provided to needy persons primarily by voluntary organizations, in some cases with the assistance of government grants.

2.1.2 The Old Age Pension came into place in 1909. It was administered by the Treasury and financed from government revenue, payable from the age of 65 for men and 60 for women. The Old Age Pension was means tested and subject to a residency requirement of 25 years, which was reduced to 20 years shortly after its introduction.

2.1.3 The aim of the Old Age Pension (renamed as the Age Pension in 1947) is to guarantee a minimum income for those elderly who are unable to support themselves financially in their retirement. Since its commencement in 1909, the Age Pension has served as a basic safety net for the elderly and, in the absence of a mandatory superannuation scheme[7] until the early 1990s, remained as the main source of retirement income for most retired people. Indicative of this trend, about 85% of the population aged 65 or above were receiving a full or partial Age Pension in the mid-1980s.

2.1.4 The prevalence of the Age Pension was attributable to the limited development of private retirement savings schemes in Australia. Private superannuation schemes came into place as early as around 1850, but these schemes had been largely optional and beneficiaries tended to be higher-income earners and public sector employees.

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6 The invalid pension was payable to people aged 16 or above who were permanently incapacitated for work due to an accident or invalidity.

7 In Australia, "superannuation scheme" is a term used to refer to an occupational pension scheme where the employee and employer contributions are placed in a fund to provide for retirement.

2.1.5 In 1983, the then newly-elected Labour government became increasingly concerned that workers were relying too heavily on public pension, leaving their retirement income vulnerable to the expected fiscal pressures as Australia ages. In 1986, the government, employers and trade unions signed a tripartite agreement which ensured the sustainability of the retirement protection system. The trade unions agreed to forego a national 3% pay increase, and employees received a 3% employer contribution to their individual superannuation accounts in lieu of the pay increase.

2.1.6 In 1992, the ruling Keating government successfully made the superannuation system mandatory in Australia. It promulgated the *Superannuation Guarantee (Administration) Act* requiring employers to contribute a prescribed minimum amount into approved superannuation schemes for all but the very lowest-paid workers. The contribution, known as the Superannuation Guarantee, was phased in stages. The minimum contribution was initially set at 3% of an eligible employee's salary (4% for those companies with a payroll greater than AUS$1 million (HK$8.1 million[8])), which gradually went up to 9% in 2002.[9]

2.1.7 With the introduction of the Superannuation Guarantee in 1992, the occupational superannuation system has become an important vehicle for providing higher incomes in retirement for employees. At present, about 90% of employees in Australia have superannuation contributions paid into a superannuation account on their behalf by their employers. Nevertheless, the Age Pension has remained as an essential safety net.

2.1.8 Australia's current retirement protection system is currently characterized as a multi-pillar arrangement comprising:

(a) a public pension – the Age Pension as the zero pillar;

(b) a compulsory employer contribution to private superannuation schemes – the Superannuation Guarantee as the second pillar; and

8 Based on the average exchange rate of HK$8.11 per Australian dollar in 2011. The conversion of foreign currency into Hong Kong dollar is to facilitate Members for a broad comparison of the selected places studied.

9 Since 1 July 2005, employees have been able to choose between a superannuation fund and a retirement savings account ("RSA") for receiving their employer contributions. RSAs are simple capital guaranteed products offered by financial institutions, and they are similar to other savings accounts in terms of growing through interest accumulated over time. The low return on RSAs renders them unpopular with many Australians. As such, this study will confine to the superannuation funds only.

(c) voluntary private retirement savings through superannuation contributions and other sources such as shares and managed funds as the third pillar; and

(d) home ownership as an important fourth pillar providing financial security in retirement and non-superannuation savings in Australia.[10]

2.1.9 Australia has not established any first pillar retirement scheme, reflecting more of historical and political development than any consistent policy stance. In the past, Australia has experienced several failed attempts to introduce mandatory publicly-managed occupational retirement schemes similar to those adopted in many other developed countries. For example, in the 1970s, there was renewed interest in the introduction of a mandatory earnings-related public pension plan in Australia. However, this was disregarded by the government of the time in favour of a voluntary superannuation system. The trade union movement then pushed for earnings-related retirement scheme with the emphasis moving away from publicly-managed to employer-provided pension plan.

2.2 Governing legislation and responsible authorities

<u>Governing legislation</u>

2.2.1 The *Social Security Act 1991* and the *Social Security (Administration) Act 1999* govern entitlement to and administration of a number of welfare benefits, including the Age Pension, disability support pension, child disability assistance and other social benefits. For the Age Pension, the *Social Security Act 1991* sets out the eligibility criteria, benefit rates and income and assets tests required for the benefit.

[10] Home owners receive the benefit of not having to pay rent during their retirement. They can also access the equity in their houses through downsizing or a reverse mortgage, whereby receiving a lump sum or a stream of payments after retirement. Home owners also benefit from concessional capital gains taxation of owner-occupied housing. In addition, the principal home of a pensioner is not included in the assets test for the Age Pension. In Australia, home ownership rates have been fairly stable at around 70% for many decades. See Australian Bureau of Statistics (2010b) and Willmore, L. & Littlewood, M. (2012).

2.2.2 Meanwhile, the *Social Security (Administration) Act 1999* sets out the claim process for the Age Pension and details about payment methods. It also provides for the establishment of the Social Security Appeals Tribunal which is empowered to review and override a decision made by Centrelink relating to the application for the Age Pension or other social security. Centrelink is the government's executive arm for the delivery of a number of social security programmes including the Age Pension.

2.2.3 Superannuation funds are principally regulated under the *Superannuation Guarantee (Administration) Act 1992*, the *Superannuation Industry (Supervision) Act 1993* and the *Financial Services Reform Act 2002*. The *Superannuation Guarantee (Administration) Act 1992* forms the basis of Australia's mandatory superannuation scheme and establishes the system requiring employers to pay a determined percentage of employees' salaries into registered superannuation funds on behalf of their employees. Employers who fail to do so are liable to a Superannuation Charge, equivalent to the amount not contributed plus an interest component and an administrative charge.

2.2.4 In Australia, superannuation funds operate as trusts with trustees being responsible for formulating and implementing the investment strategy. The *Superannuation Industry (Supervision) Act 1993* oversees the prudential operation of a superannuation fund by regulating the way in which the trustee exercises its powers. In particular, the *Act* sets out the main operating standards in terms of trustee appointments, reporting requirements, investment rules, fund account administration, and penalties for breach of the rules of operation. The *Financial Services Reform Act 2002* constitutes another legal safeguard by requiring that the trustee must have a licence to run a superannuation fund. In addition, the *Act* classifies superannuation funds as a regulated financial product subject to the statutory requirement for the disclosure of relevant information to the existing and prospective investors.

Responsible authorities

2.2.5 The Department of Human Services was established in 2004 to function as a central policy and co-ordination agency for the delivery of social and health services to the Australian people, including the management and policy determination of the Age Pension programme. The Department has a number of executive arms, of which Centrelink administers the delivery of the Age Pension and other social benefit programmes. For the Age Pension, Centrelink determines, among other things, whether an individual applicant meets the eligibility criteria under social security legislation, and the corresponding level of benefit payments.

2.2.6 Australia's superannuation policies fall within the purview of the Treasury, which is responsible for advising the government on broad retirement protection policies, including the objectives, adequacy, overarching framework and design of the superannuation system. The regulation of superannuation funds is shared among three regulators, the Australian Prudential Regulation Authority, the Australian Taxation Office and the Australian Securities and Investments Commission.

2.2.7 The Australian Prudential Regulation Authority is responsible for the prudential regulation[11] of all regulated superannuation funds other than self-managed superannuation funds[12], which is overseen by the Australian Taxation Office. The Authority also licenses superannuation trustees and may impose penalties on those trustees who breach their responsibilities under the *Superannuation Industry (Supervision) Act 1993*.

2.2.8 The Australian Prudential Regulation Authority oversees the Superannuation Complaints Tribunal, a statutory independent dispute resolution body dealing with superannuation-related complaints that cannot be settled between members of the superannuation fund and the fund trustees. The Tribunal resolves the complaints by negotiation and/or conciliation, thereby offering an alternative to the court system for settling the disputes.

11 Prudential regulation involves the imposition of prescriptive rules or standards requiring financial institutions to control risks and hold adequate capital and liquidity.

12 A self-managed superannuation fund has less than five members and all the members are the trustees of the fund. This set-up contrasts with other superannuation funds as the members are self-managing their own superannuation fund. They are responsible for the overall investment strategy, as well as legal and statutory requirements.

2.2.9 The Australian Securities and Investments Commission is responsible for consumer protection in the financial services area, with the objective of promoting confident and informed participation of consumers in the financial system. Overseeing the superannuation schemes, the Commission seeks to ensure that trustees of registered superannuation funds comply with their obligations regarding the provision of information to fund members.

2.3 Age Pension

2.3.1 The Age Pension, the zero pillar of Australia's pension system, provides a basic income support to those older Australians with no or modest private income/assets, allowing them to maintain an acceptable standard of living in retirement. It is paid biweekly into pensioners' bank accounts by Centrelink.

Coverage

2.3.2 The means tested Age Pension is available to all eligible residents of pensionable age regardless of work history. According to OECD[13], nearly 80% of Australian retirees currently receive the Age Pension. Roughly two-thirds of them receive the full pension and the remaining one-third is on partial pension as determined by the means tests.

Eligibility requirements

2.3.3 The Age Pension is payable to elderly Australians who must satisfy a means test and meet the age and residency requirements.

Qualifying age

2.3.4 The Age Pension are payable to men aged 65 or above. For women, the minimum qualifying age varies between 60 and 65. By 2014, the minimum qualifying age for women will be 65 years, making it the same as for men.

[13] See Organization for Economic Co-operation and Development (2011).

2.3.5 From 1 July 2017, the minimum qualifying age for both genders will increase from 65 to 65.5 years. It will then rise by six months every two years, reaching the age of 67 by 1 July 2023. The change is to address the problem of the ageing population and the ensuing anticipated pressures on the public pension system.

Residency requirement

2.3.6 The recipient of the Age Pension must be a resident living in Australia on the date of application. In addition, he or she must have lived in Australia for a continuous period of at least 10 years, or for a number of periods which total more than 10 years, with one of the periods being at least five years.

Means tests

2.3.7 Means tests are used to target payments to those in need, since the Age Pension is designed to provide a safety net for Australians who are unable to save enough through their working life. The rate of payment is subject to both the income and assets tests, and the test that results in the lower rate will apply.

(A) Income test

2.3.7.1 A full Age Pension will be paid if the biweekly income does not exceed AUS$150 (HK$1,217) for a single pensioner or AUS$264 (HK$2,141) for a couple. Biweekly income includes wage, interests, dividends and rents, but excludes exempt income listed under Section 8(8) of *the Social Security Act 1991*.[14] Biweekly income in excess of the allowable limit reduces the pension payable by 50 cents (HK$4) per dollar for a single pensioner, or 25 cents (HK$2) per dollar for each member of a couple.

[14] Exempt income includes the government's rent subsidy, social welfare payments, and compensation for loss of, or damage to, property.

(B) Assets test

2.3.7.2 The Age Pension will be reduced under the assets test if the total net value of the pensioner's property or assets exceeds the relevant assets limit, which is adjusted annually. Common assets include in the assets test are financial investments (cash, shares, managed investments etc.), real estate (holiday/investment properties) and personal assets such as cars and boats. Certain assets are not included in the assets test, such as the "principal" home the pensioner is living in and its surrounding land of up to two hectares that is for personal or domestic use.

2.3.7.3 For home owners, a full Age Pension is paid if the value of assets does not exceed AUS$186,750 (HK$1.5 million) for a single pensioner or AUS$265,000 (HK$2.1 million) for a couple. These thresholds are increased by AUS$135,000 (HK$1.1 million) for non-home-owners. The biweekly pension decreases by AUS$1.5 (HK$12) for every AUS$1,000 (HK$8,110) above the allowable asset limits. The assets test only applies if it results in a pension entitlement lower than that produced by the income test.

<u>Benefit rates</u>

2.3.8 The full pension rate is AUS$695.3 (HK$5,639) biweekly or AUS$1,390.6 (HK$11,278) per month for a single pensioner, and AUS$524.1 (HK$4,250) biweekly or AUS$1,048.2 (HK$8,501) per month for each member of a couple. Pensioners currently receiving other income support payments from Centrelink will receive Pension Supplement as an additional payment to their base Age Pension. Pension Supplement was introduced in 2009 to help low-income pensioners meet the costs of daily household and living expenses. The maximum biweekly payment, including Pension Supplement, reaches AUS$755.5 (HK$6,127) biweekly or AUS$1,511 (HK$12,254) per month for a single pensioner, and AUS$569.5 (HK$4,619) biweekly or AUS$1,139 (HK$9,237) per month for each member of a couple.

Taxation of Age Pension

2.3.9 The Age Pension is regarded as taxable income. Nevertheless, beneficiaries are exempt from paying any income tax, if they only receive the Age Pension as income during the financial year. Otherwise, they will be liable to income tax if the annual taxable income (including pension and non-pension income) exceeds the threshold set by the Australian Taxation Office. The income threshold for 2011-2012 is AUS$30,685 (HK$248,855) for a single pensioner and AUS$53,360 (HK$432,749) for a couple.

2.3.10 A single pensioner earning taxable income greater than AUS$30,685 (HK$248,855) is entitled to a tax credit – the Senior Australians Tax Offset – to reduce the amount of income tax payable. The same holds for a couple earning taxable income greater than AUS$53,360 (HK$432,750).

2.3.11 The Senior Australians Tax Offset is available to those of pensionable age who also satisfy a residency test. The amount of tax credit is currently set at AUS$2,230 (HK$18,085) for a single pensioner and is reduced at a rate of 12.5 cents (HK$1) for every dollar of taxable income in excess of the threshold of AUS$30,685 (HK$248,855). The tax credit fully phases out for a single pensioner at a taxable income of AUS$48,525 (HK$393,538) and above.[15]

Benefit adjustments

2.3.12 Pension rates are adjusted biannually in March and September by the greater of the movement in the Consumer Price Index ("CPI") or the Pensioner and Beneficiary Living Cost Index.[16] After the adjustment, the full pension rate for a single pensioner is compared with 27.7% of the average male weekly earnings rate. The benchmark for a couple is 41.8% of the average male weekly earnings rate. If the full pension rate is below the wage benchmark, it will be increased to that rate.

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15 The amount of the Senior Australians Tax Offset is AUS$3,204 (HK$25,984) for a couple, which is reduced by 12.5 cents (HK$1) for every dollar of taxable income in excess of the specified income threshold. The tax credit fully phases out if the couple's income exceeds the income threshold of AUS$78,992 (HK$640,625).

16 The Pensioner and Beneficiary Living Cost Index is an indicator measuring the effect of changes in prices on the living expenses experienced by aged pensioner households and other government transfer recipient households.

Funding source

2.3.13 The Age Pension is funded by government revenue on a pay-as-you-go basis.

Adequacy of Age Pension

2.3.14 In Australia, the Age Pension is not supposed to be the main component for replacement of pre-retirement income, but rather a means to guarantee a minimum level of living after retirement. Hence, the replacement rates from the Age Pension are relatively low. For example, the replacement rate for a public pensioner earning half of the average earnings before retirement only reached 37.9% in 2010. Public pensioners earning the average earnings or above had even lower replacement rates. The relatively low level of the Age Pension has contributed to the high risk of old-age poverty in Australia. According to OECD[17], Australia's income poverty rate for people aged above 65 (i.e. the proportion of the elderly aged above 65 living on incomes of less than 50% of the median household disposable income), at 26.9% in the mid-2000s, was the fourth highest among the OECD countries.

2.3.15 In 2009, the Australian government introduced a number of changes to its public pension system as part of its Secure and Sustainable Pension Reform. The changes included improving the public pension's adequacy by increasing the Age Pension payment rates and simplifying the way it is delivered.

Sustainability of Age Pension

2.3.16 According to OECD, Australia's public pension system fares better than many other developed countries from an affordability point of view. The public expenditure on pension only accounted for 3.6% of Australia's GDP in 2010, among the lowest in the OECD countries. Many developed countries are expected to face the future challenges of an ageing population, but Australia's public pension system is envisaged to be sustainable into the future. According to the OECD estimate, Australia's public expenditure is projected to rise to 4.9% of GDP in 2050, compared with the OECD average of 11.4%.[18]

[17] See Organization for Economic Co-operation and Development (2011).
[18] Ibid.

2.4 Superannuation Guarantee

2.4.1 Australia's retirement protection system seeks to accommodate the needs of individuals with different circumstances. The Age Pension acts as a safety net to protect those who are unable to save against poverty in their old age. The Superannuation Guarantee and voluntary savings schemes provide the means for individuals to secure a better income in retirement than the guaranteed minimum provided by the Age Pension. Since its inception in 1992, the Superannuation Guarantee scheme has covered most of the employees in Australia.

Coverage

2.4.2 The Superannuation Guarantee scheme is a mandatory retirement savings scheme covering not only full-time employees but also part-time employees and fixed-term workers. The self-employed are not required to contribute to a superannuation scheme. However, they can contribute to a superannuation fund voluntarily as a form of retirement savings and claim tax deductions for their contributions.

2.4.3 According to the latest survey conducted by the Australian Bureau of Statistics[19], 90% of employees in Australia had superannuation contributions paid into a superannuation scheme on their behalf by their employers in August 2010. A higher proportion of full-time employees (94%) had superannuation contributions paid into a superannuation scheme on their behalf than part-time employees (79%).

Eligibility requirements

2.4.4 Under the *Superannuation Guarantee (Administration) Act 1992*, employees who are aged between 18 and 69 and earn at least AUS$450 (HK3,650) a month[20] are entitled to compulsory employer contribution to their superannuation accounts. An employee aged under 18 is only eligible for the employer superannuation contributions if he or she works more than 30 hours a week, and earns at least AUS$450 (HK$3,650) per month.

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[19] See Australian Bureau of Statistics (2010a).

[20] The earnings threshold aims to reduce the number of small accounts that would be subject to proportionally high administrative fees, although the threshold has not been changed since the introduction of the Superannuation Guarantee.

2.4.5 The Australian government has proposed in its 2011-2012 Budget to raise the age limit of the Superannuation Guarantee from 70 to 75. In other words, employees aged 70 to 74 may be eligible to have the Superannuation Guarantee contributions made on their behalf for the first time. Increasing the Superannuation Guarantee age limit will provide an incentive for mature workers to remain in the workforce. The proposed measures, subject to the approval by Parliament, would commence from 1 July 2013.

Contribution rates

2.4.6 Employers are required to contribute at least 9% of an eligible employee's earnings to a government-registered superannuation fund, up to a maximum of AUS$43,820 (HK$355,380) a quarter. The Australian government has announced changes that, if approved by Parliament, will gradually increase the employer contribution rate to the Superannuation Guarantee from 9% to 12% between FY 2013-2014 and FY 2019-2020. The policy change should help increase the self-provision for retirement and enhance the fiscal sustainability of the public pension.

2.4.7 Employees can boost their superannuation savings by adding their own contributions on top of the compulsory employer contributions. Likewise, an employer can contribute above the compulsory Superannuation Guarantee as:

(a) a reward for an employee's performance;

(b) a type of co-payment, where the employer's contribution increases in line with the employee's voluntary contribution; or

(c) a salary sacrifice where the employer makes a contribution that would otherwise be paid as salary.

Government subsidy

2.4.8 Employer contributions to a superannuation scheme are tax deductible. For employees, the government has put in place the Super Co-contribution scheme as a financial incentive to help eligible individuals build up their personal savings for the future. If an eligible employee makes voluntary superannuation contribution, the government will match his or her contribution with the Super Co-contribution subject to the following limits:

(a) if the employee earns AUS$31,920 (HK$258,871) or less per year, the government will match dollar per dollar of his or her superannuation contribution, up to a maximum of AUS$1,000 (HK$8,110);

(b) if the employee's annual income exceeds AUS$31,920 (HK$258,871), the maximum Super Co-contribution will be reduced by 3.3 cents (HK$0.3) for each dollar of income over AUS$31,920 (HK$258,871), up to a maximum income of AUS$61,920 (HK$502,171); and

(c) if the employee earns more than AUS$61,920 (HK$502,171), he or she is not eligible for the Super Co-contribution.

Management of superannuation contributions

2.4.9 Employees have the right to choose the superannuation fund to receive their employer contributions. Nevertheless, they are not obliged to choose a superannuation fund. If they do not make a choice, their employer superannuation contributions will be paid into the fund chosen by their employers. The Australian Prudential Regulation Authority classifies Australia's superannuation funds into the following five main segments:

(a) corporate funds – funds operated for the benefit of employees of a particular company or corporate group;

(b) industry funds – funds formed to provide access to superannuation for employees working in the same industry;

(c) public sector funds – funds established to provide benefits for government employees;

(d) retail funds – open-end funds run by financial institutions which anyone can join; and

(e) small funds – funds managed by less than five private trustees.

2.4.10 As at 31 December 2011, small funds held the largest proportion of superannuation assets, accounting for 31% of the total. They were followed by retail funds (holding 27% of the total assets), industry funds (19%), public sector funds (16%), corporate funds (4%) and others (3%).

Taxation of superannuation contributions

2.4.11 Superannuation contributions can be divided into two types: concessional (before-tax) and non-concessional (after-tax). Each type of superannuation contributions is subject to a contribution cap, which limits the amount of contribution one can make in a year.

2.4.12 Concessional contributions include compulsory superannuation contributions and salary sacrifice contributions paid by employers. Those contributions are tax deductible and the contributors can claim an income tax deduction. Nevertheless, they may still be liable to a 15% superannuation tax payable at two stages: when contributions are made[21] and when investment returns are earned. Concessional contributions that exceed an annual threshold[22] are subject to an additional tax levied on the contributors (currently at 31.5% on the excess contributions).

2.4.13 Non-concessional contributions are generally the after-tax contributions made to a superannuation fund, including the voluntary contributions made by employees from their after-tax pay. No tax is deducted from those contributions and the full contributions will be recorded in the employees' superannuation accounts. Any earnings that a superannuation fund earns on non-concessional contributions are subject to the 15% superannuation tax. Non-concessional contributions that exceed an annual threshold of AUS$150,000 (HK$1.2 million) will be liable to a penalty tax of 46.5%.

[21] The 15% provision for tax is deducted from concessional contributions when allocated to an employee's superannuation account.

[22] The concessional contribution cap for 2011-2012 is AUS$25,000 (HK$202,750) for employees aged under 50 and AUS$50,000 (HK$405,500) for employees aged 50 or above.

2.4.14 Withdrawal of superannuation benefits is tax-free for people aged 60 or above. Where benefits are paid to a person below the age of 60, those benefits may subject to taxation.[23]

Withdrawal of retirement benefits

2.4.15 Access to superannuation benefits is possible for retirement on or after reaching the minimum age set by the law (known as preservation age). The preservation age currently stands at 55 and will rise to 60 between 2015 and 2025. Individuals who continue to work after reaching the preservation age can still access their benefits from age 55, but only in the form of a non-commutable income streams. A non-commutable income stream is one that provides regular income from a superannuation fund, but does not allow lump sum withdrawals. Apart from the above arrangements, it is possible for employees to defer claiming superannuation benefits until aged 65. Once attaining aged 65, they can access all their superannuation savings, regardless of whether they are working or not.

2.4.16 In Australia, there are limited circumstances where employees can access their superannuation savings early. These circumstances are mainly related to specific medical conditions (e.g. permanent incapacity and terminal illness), severe financial hardship and leaving Australia permanently.

Adequacy of Superannuation Guarantee

2.4.17 The Superannuation Guarantee allows an employee to achieve a higher standard of living in retirement than would be otherwise possible from the Age Pension alone. According to the OECD estimate, the replacement rate of an average earner from the Age Pension alone was 11.8% in 2010, compared with 47.3% when the Superannuation Guarantee was included. The improvement was also pronounced for employees earning half of the average earnings before retirement, with the increase in the replacement rate from 37.9% to 73.3%.

[23] According to Willmore, L. & Littlewood, M. (2012), tax breaks on Superannuation Guarantee cost the government an estimated AUS$27.3 billion (HK$221.4 billion) or 2% of GDP in lost tax revenue in 2010-2011. Including the cost of the tax breaks, the government's expenditure on public pension system currently accounts for 5.6% of GDP. This is higher than the OECD's 2010 estimate (3.6%) as quoted in paragraph 2.3.16.

Income poverty rate

2.4.18 In addition to the replacement rate, the adequacy of pension payment can also be reflected by the income poverty rate among the elders. Based on the OECD's latest available data, the income poverty rate of the elders in Australia was 26.9% in the mid-2000s, higher than the average of 13.5% among OECD countries.[24]

2.5 Review of the retirement protection system

2.5.1 In May 2009, the Australian government announced a comprehensive review of its nearly 20-year-old superannuation system, with special reference to the governance, efficiency, structure and operation of the system. The review aimed, among other things, to achieve an outcome that would be in the best interests of members of superannuation funds and maximize retirement incomes for Australians.

2.5.2 The review was led by Jeremy Cooper, a former Deputy Chairman of the Australian Securities and Investments Commission. The Cooper Review was released in July 2010. A key recommendation of the Review is to establish a low-cost default superannuation product – MySuper – to replace existing default superannuation funds. At present, 80% of employees do not exercise their right to join a superannuation fund of their own choice. Instead, they rely on their employers to make the choice for them from a list of eligible default superannuation funds.

2.5.3 The Cooper Review suggests that those employees who do not choose a superannuation fund should have their superannuation contributions made to MySuper. In a nutshell, MySuper will be characterized by:

(a) a single diversified investment strategy applying to all MySuper members;

[24] In this research report, the income poverty rates of Australia, New Zealand and Spain are based on a survey complied by OECD in the mid-2000s, while that of Hong Kong comes from a report complied by the Hong Kong Council of Social Service in 2011. For Taiwan, the official rate could not be located from the public domain. Since the income poverty rates in the selected places studies were compiled by individual organizations using their own methodology, the figures reported by them might not be directly comparable.

(b) no entry fees, and exit fees and buy/sell spreads on a cost-recovery basis;

(c) a ban on hidden fees and commission in relation to retail product distribution and advice by financial advisers;

(d) standardized reporting requirements in plain English;

(e) requirements for trustees of MySuper products to provide members with access to simple financial advice about their superannuation savings (intra-fund advice), with costs shared across MySuper members or charged to those who use the service; and

(f) professional advice to a MySuper member (such as comprehensive financial planning advice) provided only on request. Costs of that advice should only be deducted from MySuper member's account with the member's written consent.

2.5.4 The Treasury estimates that MySuper would result in fee reductions of around 40% for an average member, which would raise his or her superannuation balance by around AUS$40,000 (HK$324,400) after 37 years in the workforce. The introduction of MySuper, together with the proposed increase of the employer contribution rate to the Superannuation Guarantee to 12% by 2019-2020, is expected to add almost AUS$150,000 (HK1.2 million) to the retirement income of a worker aged 30 today.

2.5.5 In December 2010, the Australian government released a report entitled "Stronger Super" outlining proposed changes to the superannuation schemes based on the recommendations of the Cooper Review. It went further in September 2011 to release the "Stronger Super Information Pack" setting out its decisions on key design aspects of the Stronger Super reform. On 3 November 2011, the *Superannuation Legislation Amendment (MySuper Core Provisions) Bill 2011* was introduced to provide the legislative detail around core aspects of MySuper.

2.5.6 The key elements of the Stronger Super reform are:

(a) introducing MySuper as a new simple, cost-effective default superannuation product. From 1 October 2013, employers must make contributions to a MySuper product on behalf of their employees who have not chosen a superannuation product;

(b) setting out the requirement that MySuper products must have a single investment strategy and a standard set of fees available to all prospective members;

(c) limiting the type of fees a trustee can charge for MySuper products to administration fee, investment fee, buy and sell spreads, exit fee and switching fee. Fees other than administration and investment should be charged on a cost-recovery basis; and

(d) requiring trustees of superannuation funds to apply to the Australian Prudential Regulation Authority for approval of each MySuper product they wish to incorporate into their superannuation funds.

Chapter 3 – New Zealand

3.1 Historical development

3.1.1 New Zealand passed the *Old Age Pension Act* in 1898, rendering it among the first countries in the world to introduce an old age pension. The public pension then introduced was tax-funded and flat-rate, designed to be a very basic safety net for the deserving poor aged above 65. Applicants were subject to strict eligibility requirements, including strict income and asset tests, good moral character[25] and 25 years of residency in the country. As a result, only slightly more than one-third of the population aged 65-plus qualified for the public pension.

3.1.2 The 1898 pension structure remained virtually unchanged until 1938 when the *Social Security Act* was passed to introduce two new tax-funded flat-rate pension schemes to replace the previous scheme for the elderly. They were the income-tested Age Benefit payable from age 60 and the Universal Superannuation provided to those aged 65 or above not entitled to the Age Benefit.

3.1.3 The two-tiered public pension system had remained almost intact for four decades until 1977 when the New Zealand government replaced the income-tested Age Benefit and the Universal Superannuation with a single, more generous public pension called National Superannuation.[26] National Superannuation was financed out of government revenue, payable at age 60 regardless of whether recipients had retired. The pension rate was set at 80% of the gross average earnings for a couple and 48% for a single pensioner. Only 10 years of residence in the country were required to qualify, and there was no income or assets test.

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[25] For example, drunkards and people imprisoned for four months or more were not qualified for the old age pension.

[26] Before 1977, there were several short-lived policy measures introduced to reform New Zealand's retirement protection system. For example, the then Labour government set up a compulsory contributory occupational scheme in 1975. Contributions from employees and employers were to increase gradually to 8% of earnings and to be held in individual accounts. However, the contributory scheme lasted for a year and was repealed by the newly elected National government in 1976.

3.1.4 The National Superannuation scheme entailed substantial increase in the public pension costs owing to higher benefit levels, the abolition of the means tests previously applied to the Age Benefit, and the increased number of eligible applicants. During the 1980s, the fiscal burden of paying National Superannuation to a steadily increasing number of the elderly became a matter of growing concern for the New Zealand government, and a number of measures were introduced to trim the pension cost as a result. For example, the government announced in 1989 to gradually raise the age of eligibility for National Superannuation from 60 to 65 between 2006 and 2025.

3.1.5 Following the change of government in 1991, the incoming administration decided to bring forward the timing of the above policy change. The age of eligibility was to be raised progressively from 60 to 65 between 1992 and 2001. The generosity of National Superannuation was further reduced during the 1990s with the suspension of the 80% link of the public pension to the gross average earnings. The pension rate was, instead, adjusted by the lower of the inflation rate and wage growth, and was legislated to be within the range of 65% and 72.5% of the net average earnings of a married couple.

3.1.6 The latest change made to the pension scheme was made in 2007 with the introduction of a government-subsidized occupational pension, KiwiSaver, to encourage New Zealanders to save for their retirement.[27] New permanent employees aged between 18 and 64 are automatically enrolled in the KiwiSaver scheme. The introduction of KiwiSaver at that time was to complement existing occupational retirement schemes and increase the overall coverage ratio of occupational pensions in New Zealand. In 2007, the coverage ratio stood at 21%, a level regarded as insufficient.

[27] KiwiSaver was a variant of the failed compulsory contributory savings scheme implemented by the ruling Labour government in 1975 to oblige the New Zealand people to provide for their own retirement income.

3.1.7 The launch of KiwiSaver in 2007 marks a departure from New Zealand's long-maintained retirement protection policy dominated by National Superannuation (renamed New Zealand Superannuation in 1993) and strictly voluntary, non-subsidized private occupational pensions. Since then, New Zealand's retirement protection system has all along maintained a plain uncomplicated structure such that the current regime is considered one of the simplest models among developed countries. The system primarily consists of New Zealand Superannuation (a non-contributory public pension) as the zero pillar, and the KiwiSaver scheme and other occupational pensions as a second-cum-third pillar measure. As to the fourth pillar, there was a widely discussed decline in the home ownership rate between 1991 and 2006[28], with this decline projected to continue until at least 2016.[29]

3.1.8 New Zealand has not established a mandatory contributory public pension as the first pillar of its retirement protection policy. According to the New Zealand government, topping up the basic level of New Zealand Superannuation by means of a second pension to achieve a higher rate of income replacement should be a matter of individual responsibility and decision. The government should not be involved in securing self-provision for retirement by managing a compulsory pension scheme for the working population.[30]

3.2 Governing legislation and responsible authorities

Governing legislation

3.2.1 The *New Zealand Superannuation and Retirement Income Act 2001* provides the legislative framework for the operation of New Zealand Superannuation. The *Act* sets out the entitlements to the public pension, including the age of eligibility, the residency requirement, the rates of payment and the annual adjustment mechanism of the rates. It also provides for the establishment of the New Zealand Superannuation Fund in 2001 to receive and invest the government contributions, with the objective of making provision for future cost of New Zealand Superannuation (see paragraphs 3.3.9-3.3.13 below for details).

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28 Home ownership rate peaked at 73.8% in the 1991 census and has since then declined to 70.7% in 1996, 67.8% in 2001 and 66.9% in 2006. This, coupled with the lack of up-to-date figure on home ownership rate, renders it difficult to ascertain whether home ownership currently serves as an important fourth pillar in New Zealand.

29 See Hulse, K. et al. (2010).

30 See Hurnard (2005).

3.2.2 The *New Zealand Superannuation and Retirement Income Act 2001* also requires the Retirement Commission to conduct a triennial review on New Zealand's existing retirement protection policies and map out the way forward. The Retirement Commission was established in 1993 as an autonomous crown entity[31] to help the New Zealand people prepare financially for retirement by means of education and publicity.

3.2.3 Another key governing legislation is the *KiwiSaver Act 2006* that came into force in October 2007. The *Act* sets out the framework for the operation of the KiwiSaver scheme so as to foster long-term savings and asset accumulation habit by individuals for the purpose of retirement. In particular, it stipulates the auto-enrolment mechanism and the contribution rates for the KiwiSaver scheme. The *KiwiSaver Act 2006* also governs the establishment, registration and administration of the various KiwiSaver saving plans, as well as setting out the responsibilities of trustees of those plans.

<u>Responsible authorities</u>

3.2.4 New Zealand Superannuation is administered by the Ministry of Social Development, the leading government agency for providing social services to the elderly, children and young people, working-age people, families and communities. The Ministry has a number of policy and executive arms, of which Work and Income is responsible for the payment of New Zealand Superannuation as an income support for people of retirement age. The Ministry also works with the New Zealand Treasury to advise the government on the retirement protection policy for the elderly.

3.2.5 The administration of the KiwiSaver scheme is shared between Inland Revenue and the Financial Markets Authority. Inland Revenue collects employer and employee contributions to the KiwiSaver scheme and passes them to the scheme providers.[32] The latter, including banks, insurance companies and investment managers, offer a variety of KiwiSaver savings plans with various investment options, ranging from conservative to growth funds. Employees can choose their preferred plans and select the corresponding KiwiSaver scheme providers for managing their savings.

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[31] Crown entities are legal entities in their own right. In New Zealand, it is common to assign to a crown entity a government activity or function that should be carried out at "arm's length" from the government.

[32] Employers must deduct employees' KiwiSaver contributions from their before-tax pay on payday. They will send the money so deducted, together with the compulsory matching employer contributions, to Inland Revenue. The latter will then transfer each member's contribution to his or her KiwiSaver scheme provider for investment in the corresponding savings plan.

3.2.6 Meanwhile, the Financial Markets Authority registers and regulates all KiwiSaver savings plans to ensure that they are competitive and operate in the members' best interests. The Authority was established in 2011 under the *Financial Markets Authority Act 2011* to regulate securities exchanges, financial advisers and brokers, trustees and issuers, including issuers of KiwiSaver and superannuation schemes.[33]

3.3 New Zealand Superannuation

3.3.1 New Zealand's public pension system differs in principle from those adopted in many other developed countries. The public pension is a *universal* payment and its primary goal is to provide a basic but adequate standard of living, thereby preventing poverty in old age. Achieving a high level of income replacement is viewed by the government as a matter of individual responsibility. Under such a design, lower-income earners are assured of the public pension sufficient for maintaining their retirement life. For higher-income earners, the public pension provides a baseline of certainty from which they can plan additional savings.

Coverage

3.3.2 New Zealand residents aged 65 or above are entitled to New Zealand Superannuation if they meet the residency requirement. In 2010, about 94% of New Zealanders aged 65 or above received New Zealand Superannuation.[34] Indeed, the great majority of older New Zealand people are very dependent on the public pension and other government transfers as their income support. According to the Ministry of Social Development[35], 40% of those over the age of 65 have virtually no income source other than New Zealand Superannuation, while another 20% receive 85% of their income from New Zealand Superannuation and other government transfers.

[33] A superannuation scheme is a scheme which is not a KiwiSaver scheme but is also established principally to provide retirement benefits. The *Superannuation Schemes Act 1989* regulates the registration and operation of superannuation schemes in New Zealand.

[34] See Ministry of Social Development (2010).

[35] Ibid.

<u>Eligibility requirements</u>

3.3.3 The non-contributory flat-rate New Zealand Superannuation is payable to New Zealand residents aged 65 or above who fulfil the residency requirement. To meet the residency requirement, the recipients must have lived in New Zealand for at least 10 years since turning the age of 20 with at least five years spent in the country after the age of 50.

3.3.4 Apart from the qualifying age and residency requirements, there is no income or assets test used in determining eligibility. The non-existence of a means test, coupled with the fact that New Zealand Superannuation is an individual (not a family) entitlement[36], makes New Zealand's public pension system almost unique among the basic, tax-funded pillar component of retirement income systems around the world.

<u>Benefit rates</u>

3.3.5 The rates of New Zealand Superannuation payable vary according to living arrangements, with different rates for married couples[37], single pensioners living alone, and single pensioners sharing accommodation. All rates are derived from the married couple rate. When a married couple reach the age of 65, they will receive a public pension equivalent to at least 66% of the after-tax average earning by legislation. The respective thresholds for single pensioners living alone and sharing accommodation are set at 65% and 60% of that for a married couple rate.

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36 Entitlement to New Zealand Superannuation is based on individual qualification and each person in a married couple must qualify individually in order to receive New Zealand Superannuation.

37 New Zealand's public pension is an individual (not a family) entitlement. As such, the married couple rate quoted in this research report refers to the pension rate received by a couple when both members qualify for the pension.

3.3.6 At present, the gross pension rate amounts to NZ$604.8 (HK$3,768[38]) per week or NZ$2,419.2 (HK$15,072) per month for a married couple (where both qualify for the pension), and NZ$400.07 (HK$2,492) per week or NZ$1,600.3 (HK$9,970) per month for single pensioners living alone. The corresponding payment for single pensioners sharing accommodation is NZ$367.45 (HK$2,289) per week or NZ$1,469.8 (HK$9,157) per month. Work and Income makes payments to the beneficiaries at the net rate after tax has been deducted at "M" or "S". As a general guideline, the "M" tax code will be used if New Zealand Superannuation is the beneficiary's highest or only source of income. A beneficiary with another main source of income will be subject to "S" tax code.

Taxation of benefits

3.3.7 All benefits received under New Zealand Superannuation are subject to income tax, which helps the government reduce the expenditure on the provision of the universal public pension. Taxing the pension benefits also serves as an "ex-post" income test, clawing back some of the pension granted to wealthier retirees. In New Zealand, the lowest income bracket is taxed at 10.5% and the highest at 33%. The net pension retained by the highest income earners is 75% as large as that retained by the lowest income pensioners.[39]

Benefit adjustments

3.3.8 According to the *New Zealand Superannuation and Retirement Income Act 2001*, benefits are adjusted annually on 1 April according to changes in CPI for the previous year. After the adjustment, the after-tax benefit payment payable to a married couple is required under the *Act* to be within the range of between 65% and 72.5% of the average earnings after tax. It is the current government policy to maintain the after-tax married couple rate at a minimum of 66% of the average earnings after tax. If the after-tax married couple rate after the CPI adjustment is less than 66% of the average earnings after tax, a further adjustment is made to bring the rate up to this level.

38 Based on the average exchange rate of HK$6.23 per New Zealand dollar in 2011.
39 The figure is derived from the following calculation: (1 – 0.33)/(1 – 0.105) x 100% = 75%.

Funding sources

3.3.9 New Zealand Superannuation is funded by government revenue on a pay-as-you-go basis. Under such arrangement, the problem of an ageing population and the potential pension funding pressure may surface in New Zealand when the baby boom generation begins to turn age 65 from 2011.[40] Reflecting this trend, OECD has forecasted an increase in the cost of New Zealand Superannuation from 4.7% of GDP in 2010 to 8.0% in 2050.[41] As a pre-emptive measure, the New Zealand government established a buffer fund – the New Zealand Superannuation Fund – in 2001 to make provision for the expected surge in future pension payment at a time when demographic conditions are still favourable and the cost of New Zealand Superannuation remains relatively low.

3.3.10 The New Zealand Superannuation Fund operates as an investment fund that receives and invests contributions from the government. The accumulated balance serves to pre-fund New Zealand Superannuation and would eventually be drawn down in future years to help meet the cost of public pension payments. In so doing, future governments could be spared from seeking as much from general taxation (and/or other sources such as through raising debt) to meet the pension costs at a time when the ageing population is growing rapidly.

3.3.11 The New Zealand Superannuation Fund is managed by a separate Crown entity – the Guardians of New Zealand Superannuation – established to manage the government contributions. As stipulated under the *New Zealand Superannuation and Retirement Income Act 2001*, the board members of the Guardians of New Zealand Superannuation can only be appointed among those "who, in the Minister [of Finance]'s opinion, has substantial experience, training, and expertise in the management of financial investment".[42] In addition, the *Act* requires the assets to be invested in a prudent manner so as to avoid any undue risk.

[40] A baby boomer is considered to be someone born during the demographic birth boom between 1946 and 1964. See Wikipedia (2012).
[41] The percentage share is still lower than the OECD average of 11.4% in 2050.
[42] See Section 55(a) of the *New Zealand Superannuation and Retirement Income Act 2001*.

3.3.12 In September 2003, the New Zealand Superannuation Fund received an initial government contribution of NZ$2.5 billion (HK$15.6 billion). Thereafter, the Fund received government contributions based on the annual contribution schedule determined by the New Zealand Treasury, amounting to about NZ$2 billion (HK$12.5 billion) per year from FY 2004-2005 to FY 2008-2009. Any withdrawals from New Zealand Superannuation Fund are permitted until after 1 July 2020.[43]

3.3.13 As a result of the economic downturn in 2008 and the ensuing fiscal constraints, the New Zealand Treasury reduced its capital contribution to NZ$250 million (HK$1.6 billion) in FY 2009-2010, with no further allocations expected until FY 2020-2021. So far, the New Zealand Superannuation Fund has received a total of NZ$14.9 billion (HK$92.8 billion) from the government in respect of funding the pension cost of New Zealand Superannuation.

<u>Adequacy of pension payment</u>

3.3.14 New Zealand Superannuation benefits particularly low-income earners, as the replacement rate for a public pensioner earning half of the average earnings before retirement reached 77.5% in 2010. In contrast, employees on average earnings or above have lower replacement rates. For example, the replacement rate for a public pensioner earning the average earnings before retirement was 38.7% in 2010.

Income poverty rate

3.3.15 In New Zealand, the income poverty rate of the elderly was only 1.5% in the mid-2000s, much lower than the average of 13.5% among OECD countries.

[43] According to Guardians of New Zealand Superannuation (2012), it is not anticipating any withdrawals until at least 2031.

Sustainability of New Zealand Superannuation

3.3.16 There are views that New Zealand's public pension system is better placed, from an affordability point of view, than many other OECD countries. In particular, the New Zealand system is among the lowest cost in the OECD countries, while still ranking highly in terms of preventing old age poverty.[44] According to the OECD estimate, New Zealand's public expenditure on pensions accounted for 4.7% of GDP in 2010, well below the OECD average of 8.4%.[45]

3.4 KiwiSaver

3.4.1 New Zealand Superannuation primarily serves the objective of providing basic income support for people of retirement age (i.e. alleviation of old age poverty and hardship). The introduction of KiwiSaver, an occupational pension, in 2007 addresses a number of objectives that are beyond the primary focus of New Zealand Superannuation. Above all, KiwiSaver focuses on:

(a) lifetime consumption smoothing (maintaining individual living standards into retirement);

(b) voluntary saving; and

(c) cohort self-funding (ensuring inter-generational equity with each generation financing its own retirement life).

Coverage

3.4.2 KiwiSaver is open to New Zealanders who are under the age of eligibility for New Zealand Superannuation (currently 65). As at June 2011, 1.76 million New Zealand people or 44% of the eligible population (those aged under 65) joined the KiwiSaver scheme.[46] This membership figure more than doubled that recorded in the first year of operation, when 716 000 New Zealand people enrolled in various KiwiSaver savings plans.

44 According to Perry (2011), New Zealand has the lowest poverty rate for people aged above 65 in OECD.
45 See Organization for Economic Co-operation and Development (2011).
46 Inland Revenue has conducted annual survey since July 2007 to summarize key performance data and trends of KiwiSaver. The latest survey results were published in October 2011. See Inland Revenue (2011a).

<u>Eligibility requirements</u>

3.4.3 In New Zealand, employers must automatically enrol their permanent new employees aged between 18 and 64 in the KiwiSaver scheme on the day they commence employment. Enrolled employees can decide whether to opt out or remain as a KiwiSaver member during the second and eighth week of starting a new job.[47] Having opted out, they cannot be auto-enrolled again until they change job. Newly recruited employees that are already KiwiSaver members are excluded from the automatic enrolment mechanism. Meanwhile, new employees are not automatically enrolled if the employer already has an alternative "exempt" occupational pension scheme for them.[48]

3.4.4 New employees under the age of 18, casual agricultural workers and temporary workers employed for less than four weeks can join KiwiSaver if they wish. Voluntary enrolment also holds for the self-employed and people who are unemployed or receiving welfare benefits.

<u>Contribution rates</u>

3.4.5 Employees enrolled in a KiwiSaver savings plan can choose a contribution rate of 2%, 4% or 8% of their gross salary. The contribution is deducted from their gross salary on the payday and paid directly to Inland Revenue. For employees not choosing a contribution rate, the default rate of 2% will apply. Nevertheless, they can change the contribution rate every three months. Employees contributing to KiwiSaver are entitled to a compulsory matching employer contribution capped at 2% of their gross salary. However, employers are not required to make compulsory contributions if the employees are under the age of 18.

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47 The underlying rationale for KiwiSaver's "auto-enrolment, opt-out" approach is that people ought to save for their retirement, but many of them need to be nudged into that decision. In addition, people are affected by inertia and once opted-in, they are unlikely to opt-out even if they would not have made the initial decision to join. See St John, S. et al. (2010).

48 Employers may apply for exemption from providing their employees with a KiwiSaver savings plan, if their existing occupational retirement plans meet certain criteria, such as providing benefits that are equal to or greater than the KiwiSaver plan's minimum benefit requirement.

3.4.6 From 1 April 2013, the minimum employee contribution and the compulsory matching employer contribution to KiwiSaver will be both increased from 2% to 3%. The 4% and 8% contribution rate options will still be available to employees who wish to save at a higher rate. The above adjustment is one of the measures announced in the 2011 Budget to make the KiwiSaver scheme more sustainable for the future.

3.4.7 Non-employees, such as the self-employed and unemployed, are not subject to the requirement of minimum contribution to KiwiSaver. They can choose the amount they want to contribute and make payments directly to the KiwiSaver scheme providers.

Government subsidy

3.4.8 Although participation in KiwiSaver is encouraged through the auto-enrolment mechanism, the New Zealand government has put in place a number of financial incentives to boost the uptake of the scheme. Employee-targeted incentives include the provision of:

(a) a "kick-start" bonus – a NZ$1,000 (HK$6,230) tax-free government contribution to each KiwiSaver account upon enrolment;

(b) a member tax credit of 50 cents (HK$3) for every NZ$1 (HK$6) contributed by a participating employee, up to maximum payment of NZ$521.43 (HK$3,249);

(c) a first-home withdrawal where KiwiSaver members can withdraw some or all of their KiwiSaver savings (excluding kick-start bonus and member tax credit) to buy their first home, after three years of saving in KiwiSaver;

(d) a first-home deposit subsidy of NZ$1,000 (HK$6,230) per year up to an individual maximum of NZ$5,000 (HK$31,150), after three years of contributing to a KiwiSaver account[49]; and

[49] A couple buying a house together can receive a combined subsidy of up to NZ$10,000 (HK$62,300) if both members qualify for the first-home deposit subsidy.

(e) contributions holiday – participating employees making contributions to KiwiSaver for 12 months or more can stop the KiwiSaver contributions for a period of between three months and five years.

3.4.9 For employers, they can claim income tax deduction from their compulsory matching contributions to KiwiSaver. Previously, they were also entitled to a weekly tax credit of up to NZ$20 (HK$125) per each participating employee, in a government policy to help them offset their contributions to KiwiSaver. This temporary tax incentive was abolished in 2009 after a year of operation.

Management of KiwiSaver contributions

3.4.10 Employees can choose a preferred KiwiSaver scheme provider and direct Inland Revenue[50] to forward their contributions (together with the compulsory matching employer contributions) to any of the registered investment funds provided by that scheme provider. Employees who do not actively make an investment choice are allocated to an employer-chosen KiwiSaver scheme provider. If the employer has not selected a particular scheme provider, Inland Revenue randomly assigns the participating employees to a conservatively-managed default fund. Six KiwiSaver scheme providers have been chosen through a tender process by the Ministry of Economic Development to provide KiwiSaver default funds, to which auto-enrolled members are allocated with equal probability.

3.4.11 Non-employees who opt to join KiwiSaver may contact a KiwiSaver scheme provider and make contributions directly to it. These payments can be of any amount subject to a provider's agreement and will be eligible for the government subsidies such as the "kick-start" bonus and the member tax credit.

[50] As mentioned in paragraph 3.2.5, Inland Revenue collects employer and employee contributions and passes them to the KiwiSaver scheme providers.

Taxation of KiwiSaver

3.4.12 Employee contributions to KiwiSaver are calculated on their before-tax pay. However, they still pay tax on the full amount that they earn. In addition, employees are no longer entitled to a tax-free matching employer contribution after 1 April 2012. Employers are currently subject to "Employer Superannuation Contribution Tax" and pay the net amount (after the deduction of tax payment) to the KiwiSaver scheme.

Withdrawal of retirement benefits

3.4.13 KiwiSaver members become eligible to withdraw all their savings as a lump sum when they reach the age of 65. Nevertheless, benefits are payable earlier in the event of financial hardship, first-home withdrawal, permanent emigration, serious illness (including that of a family member), and the death of the KiwiSaver member.

3.5 Reviews of the retirement protection system

3.5.1 On 7 December 2010, the Retirement Commission released the "2010 Review of Retirement Income Policy" as its second triennial evaluation of New Zealand's retirement income system and other related areas. The report focuses on two main components of New Zealand's retirement protection scheme, namely New Zealand Superannuation and the KiwiSaver scheme.

3.5.2 Subsequently, the government-appointed Savings Working Group[51] released a report entitled "Saving New Zealand: Reducing Vulnerabilities and Barriers to Growth and Prosperity" on 1 February 2011. The report reviews savings policies in New Zealand, including the role of KiwiSaver in improving national savings.

[51] In August 2010, the New Zealand government set up the Savings Working Group to study how New Zealand's national savings level could be improved.

<u>New Zealand Superannuation</u>

3.5.3 According to the Retirement Commission, the cost of the public pension will escalate over the next two decades as a result of rising life expectancy, an increasing number of eligible people for receiving New Zealand Superannuation, and the expected growth in payment rates over inflation.[52] Some adjustments will be necessary to manage the pension costs and preserve the integrity of the public pension system in the long term.

3.5.4 Nonetheless, the Retirement Commission does not consider it necessary for a major reform of the current public pension system through measures such as introduction of an income test for New Zealand Superannuation. Instead, it has evaluated a number of possible options to modify the current system and proposed a package that will preserve the essential universal character of New Zealand Superannuation. The package features modest changes to the eligibility and entitlement rules to be phased in from 2020 onwards. These proposed changes include:

(a) a gradual increase in the normal retirement age from 65 to 67 for both men and women, by two months each year from 2020 to 2033;

(b) the introduction of a transitional, means tested benefit for those aged 65 to 66 who may not be able to support themselves until aged 67, the normal retirement age proposed in (a); and

(c) the indexation of New Zealand Superannuation using the average of the percentage change in CPI and wage growth, rather than the link to the net average earnings.[53]

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52 According to Pension & Development Network (2010), the sustainability of New Zealand Superannuation is threatened by a rapidly aging population. The ratio of workers to retirees is expected to fall from the current level of 4.5:1 to 2.2:1 by 2036. Without any changes to the public pension scheme, the cost of New Zealand Superannuation is projected to rise from the current 4.5% of GDP to 6.5% by 2035.

53 As discussed in paragraph 3.3.8, the inflation-adjusted public pension payable to a couple is statutorily required to stay within the range of 65% to 72.5% of the net average earnings.

3.5.5 The Retirement Commission received the government's response to its "2010 Review of Retirement Income Policy" in July 2011. As to the proposed changes to the eligibility and entitlement rules of the public pension scheme, the government stated that "[it] is committed to New Zealand Superannuation settings as they now stand."[54]

KiwiSaver

3.5.6 The Retirement Commission has identified increasing government subsidies on the KiwiSaver scheme as a key concern for public finance. As at 30 June 2011, more than NZ$9.2 billion (HK$57.3 billion) in contributions were passed to KiwiSaver scheme providers for investment, of which NZ$3.6 billion (HK$22.4 billion) or 39% was government subsidies.[55] Against this, turning KiwiSaver into a compulsory scheme could be seen as a way of reducing the cost burden.

3.5.7 However, the Retirement Commission "does not support changes to make KiwiSaver compulsory[56]" in view of the mixed evidence to the effectiveness of a compulsory savings scheme. Under a compulsory environment, there would arguably be no need to maintain costly incentives to encourage participation in an auto-enrolment and opt-out system. On the other hand, administration and compliance costs would be higher under a compulsory saving scheme. In addition, compulsory saving would require those low-income and non-standard employees[57] to reduce their current consumption in order to save, potentially reducing their welfare. In some cases, pre- and post-retirement standard of living could be smoothed with little private saving required due to the presence of the universal New Zealand Superannuation.

3.5.8 Similar to the Retirement Commission, the Savings Working Group recommends that membership in KiwiSaver should remain voluntary. Furthermore, it considers that raising participation in KiwiSaver is conducive to increasing New Zealand's savings rate, and thus recommends a number of measures to improve the operation of KiwiSaver. The recommendations include:

54 See Retirement Commission (2011a).
55 See Inland Revenue (2011a).
56 See Retirement Commission (2011b).
57 These employees include those having part-time work or those who move in and out of the workforce for different reasons such as taking care of their children.

(a) reducing the starting age of KiwiSaver membership from 18 to 16;

(b) extending the auto-enrolment to the self-employed and employees aged 16 or above who are not currently enrolled in KiwiSaver, but with the flexibility for them to opt out;

(c) spreading the kick-start bonus (currently NZ$1,000 (HK$6,230)) over a five-year period, and making payments contingent on ongoing contributions[58]; and

(d) creating a new low-cost default scheme that invests only in index-based shares and bonds so as to reduce costs, fees and expenses.[59]

3.5.9 In response to the above recommendations on KiwiSaver, the New Zealand government considers that it is still too early to conclude whether KiwiSaver is a cost-effective way to encourage saving and whether, alongside New Zealand Superannuation, it will effectively prepare the New Zealand people for retirement.[60] This is particularly the case as the effectiveness of the KiwiSaver scheme is being evaluated jointly by several government agencies and the evaluation is due to be completed in June 2013.

58 Such an arrangement helps spread the expected increase in the government expenditure on the kick-start bonus over a longer period should the lowering of starting age for KiwiSaver trigger a sudden influx of new members to the scheme. It also provides an incentive for KiwiSaver members to continue contributing to their accounts as they are entitled to take a contributions holiday after one year of saving in KiwiSaver.

59 At present, those KiwiSaver members who do not specify a savings plan will be randomly allocated to one of the six default providers that have been chosen by the government. As at 30 June 2010, 29% of KiwiSaver members were default allocated.

60 See Retirement Commission (2011b).

Chapter 4 – Spain

4.1 Historical development

4.1.1 In Spain, the social security system[61] came into place in 1900 featuring the establishment of a mandatory disability and pension insurance programme to provide retirement protection for public sector employees under the *Labour Accident Act*. The programme was later extended to private sector employees in 1919. By the 1930s, the working population was covered under various forms of mandatory retirement protection schemes. As the mandatory schemes only provided minimal pension to retirees, the Spanish government set up pension fund for each industry, which was jointly managed by the government and trade unions, to complement the mandatory retirement protection schemes. As a result, the mandatory schemes and complementary occupational pension funds formed a two-pillar retirement system to support the retirees.

4.1.2 In view of the problems of inconsistency resulting from fragmented pension funds and diversified benefit rates among employees of different sectors, the government has sought to reform the pension system since the 1960s. The first attempt was made in 1967 to consolidate the retirement protection schemes through the introduction of the *General Social Security Act*, followed by the implementation of a new governing structure on social security in the late 1970s.

4.1.3 Further government measures were implemented in the 1980s and the 1990s to improve the adequacy and sustainability of the retirement protection regime. For example, the government introduced reform measures in 1985 to rein in the increasing expenditures on pension. Legislation was introduced in 1987 to regulate the private pension, and a non-contributory pension was created in 1990 for the elderly and the disabled. In 1995, the *Toledo Pact* was agreed among the political parties to strengthen the long-term financial stability of the pension system through adopting measures, such as extending the contributory period and separating the funding source of contributory benefits from that of non-contributory benefits.

[61] The social security system in Spain provides coverage for a variety of benefits including retirement and death benefits, disability, sickness and maternity benefits, as well as work-related benefits, medical care, family allowances and unemployment insurance. This study only focuses on the retirement benefits.

4.1.4 Spain has established a multi-pillar retirement protection system after years of successive reforms. At present, the system comprises the mandatory Public Pension Scheme, and the voluntary occupational and private pension schemes. The Public Pension Scheme consists of contributory and non-contributory components. Being the first pillar, the contributory scheme covers the working population and the pension payable is based on a participant's earnings and the number of years of contribution. Meanwhile, the zero pillar non-contributory scheme provides a flat-rate, means tested pension to people who are ineligible for the earnings-related pension. The voluntary occupational and private pension schemes serve as the third pillar, featuring the provision of non-subsidized retirement savings plans to supplement the Public Pension Scheme managed by the government.[62] Due to the generosity of the public pension, both occupational and private pension schemes play a relatively insignificant role in retirement protection as compared with the Public Pension Scheme. In addition, the high home ownership rate in Spain, currently at over 80%, serves as the fourth pillar of retirement protection.[63]

4.2 Governing legislation and responsible authorities

<u>Governing legislation</u>

4.2.1 Article 41 of the *Spanish Constitution* provides that, "*the public authorities shall maintain a public social security system for all citizens guaranteeing adequate social assistance and benefits in situations of hardship, especially in case of unemployment. Supplementary assistance and benefits shall be optional*". This provision lays the constitutional foundation for the mandatory public pension and the supplementary private pension.

4.2.2 A number of legislation set out the framework of the pension system in Spain, including:

(a) the *Law on regulation of pension plans and funds* (Law 8/1987) to regulate the operation of private pension schemes;

[62] Spain has not established any mandatory occupational pension plans as the second pillar.
[63] Owing to scanty information available in the public domain, it is difficult to ascertain the effectiveness of the fourth pillar, particularly home ownership, in protecting the retirees in Spain. This is especially the case in view of the high income poverty rate of the elderly in Spain.

(b) the *Law on non-contributory pensions of the social security system* (Law 26/1990) to introduce a non-contributory, means tested pension for the elderly and the disabled; and

(c) the *Law on consolidation and rationalization of the social security system* (Law 24/1997) to separate the funding sources for the contributory and non-contributory pensions, and establish the Social Security Reserve Fund as a buffer fund to make provision for future pension costs.

4.2.3 In addition, both occupational and private pension schemes are required to comply with extensive regulations governing investment restrictions, transfer of funding and investment expenses, as well as specific audit, actuarial and disclosure requirements.

Responsible authorities

4.2.4 Several government departments share the administration and regulation of the pension system. The National Institute for the Elderly and Social Services, reporting to the Ministry of Health, Social Policy and Equality, is responsible for the administration of the non-contributory Public Pension Scheme.

4.2.5 Established under the Ministry of Labour and Immigration, the Secretariat of State for Social Security manages the contributory Public Pension Scheme by overseeing the following bodies:

(a) the General Treasury of the Social Security which collects contributions, keeps the registration records of employers, employees and the self-employed, distributes benefits and manages the Social Security Reserve Fund;

(b) the National Social Security Institute which manages the contributory Public Pension Scheme for all but seamen, through verifying and approving their applications and calculating the amounts of benefits payable; and

(c) the Social Marine Institute which administers the Special Social Security Scheme for seamen.

4.2.6 Both occupational and private pension schemes are run by private companies under the supervision of the Directorate-General of Insurance and Pension Funds attached to the Ministry of Economy and Finance.

4.3 Non-contributory Public Pension Scheme

4.3.1 The government-funded non-contributory Public Pension Scheme provides a means tested payment to the beneficiaries for meeting their basic needs and ensuring that they are not at risk of poverty.

Coverage

4.3.2 The Scheme covers the elderly who are ineligible for applying for the contributory Public Pension Scheme.

Eligibility requirements

4.3.3 Elderly people aged 65 or above, without making any contribution to the social security system or having a contributory period not long enough to be eligible for the contributory pension, can apply for the non-contributory pension. Applicants are subject to income test and residency requirements. A single person with no spouse is eligible for the pension if his or her income is less than €4,866.4 (HK$53,141[64]) per annum. Nevertheless, if the pensioner's annual income exceeds the above limit by no more than 25%, the pensioner is still entitled to receive the non-contributory pension albeit at a reduced rate.[65]

4.3.4 To meet the residency requirement, the pensioner must have lived in Spain for at least 10 years after reaching the age of 16, and two years out of the 10 years must be consecutive and immediately before the application.

64 Based on the average exchange rate of HK$10.92 per euro in 2011.
65 See European Commission (2011b).

Benefit rates

4.3.5 The benefit rate for a full pension is €4,866.4 (HK$53,141) per annum[66], equivalent to €405.5 or HK$4,428 per month. In case the pensioner's annual income exceeds €4,866.4 (HK$53,141) by no more than 25%, the non-contributory pension is reduced accordingly subject to a minimum pension of €1,216.6 (HK$13,285) per annum (or HK$1,107 per month), which is equivalent to a quarter of the full pension sum.

Taxation of non-contributory Public Pension Scheme

4.3.6 Benefits received under the Scheme are taxable with some exceptions, such as pension payments payable to the disabled.

Benefit adjustments

4.3.7 In principle, the benefit rate of the non-contributory Public Pension Scheme is adjusted annually in accordance with changes in CPI. In recent years, the government has set the rate of annual benefit adjustment higher than the inflation rate to ensure that the pensioners have adequate payments.

Funding sources

4.3.8 Prior to 2000, the funding of both contributory and non-contributory Public Pension Schemes was managed by the General Treasury of the Social Security and the surplus from the contributory pension was used to finance the payout of the non-contributory pension. In 2000, the government established the Social Security Reserve Fund to pre-fund the contributory Public Pension Scheme, in an effort to strengthen the financial stability of the pension system as set out in the *Toledo Pact*. The Fund serves as an investment fund which receives and invests the surplus left after the payout of retirement benefits to the pensioners from the contributions accumulated. With the establishment of the Fund, the non-contributory Public Pension Scheme is financed solely by the government funding transferred from the General State Budget.

[66] Pensioners receive a total of 14 pension payments per year, one at the end of each calendar month and two bonus payments distributed in June and November.

4.4 Contributory Public Pension Scheme

4.4.1 As the predominant pillar of the Spanish pension system, the earnings-related contributory Public Pension Scheme is divided into the following sub-schemes by occupational category:

(a) the General Social Security Scheme for private sector employees, professionals and public sector employees working in municipalities and local corporations.[67] It is the largest scheme in terms of the number of contributors and pensioners; and

(b) five Special Social Security Schemes for the self-employed, agricultural workers, seamen, domestic servants and coal miners.

<u>Coverage</u>

4.4.2 Both employees aged between 16 and 65 and the self-employed aged between 18 and 65 are covered by the contributory Public Pension Scheme.

<u>Eligibility requirements</u>

4.4.3 Pensioners can receive the contributory pension for life from the age of 65 if they have paid contributions for at least 15 years, of which at least two must fall within the 15 years immediately prior to retirement.

4.4.4 Employees may choose to defer their retirement at any age after 65 to receive higher pension payments or apply for an early retirement under the following circumstances:

(a) full pension before the age of 65 if they are disabled with a degree of incapacity of 45% to 65%, or have been engaged in hazardous or harmful jobs, such as seamen and coal miners;

[67] Military personnel and civil servants in the central government and judiciary are covered by distinctive mutual funds, rather than by the General Social Security Scheme.

(b) reduced pension at the age of 60 for either voluntary retirement or involuntary termination if they have made contributions to the social security system before 1 January 1967;

(c) reduced pension at the age of 61 if they have made contributions to the social security system after 1 January 1967 for at least 30 years and have been involuntarily terminated for more than six months;

(d) partial pension between the age of 61 and the retirement age, not necessarily at 65, under the arrangement of partial retirement[68];

(e) reduced pension before the age of 65 if they continue to work part-time under the arrangement of flexible retirement; and

(f) full pension at the age of 64 if the job of the retiring employee is taken by an unemployed under the arrangement of special retirement.

<u>Contribution rates</u>

4.4.5 It is compulsory for employers and employees to make contributions to the contributory Public Pension Scheme within the specified minimum and maximum monthly levels set annually by the government. The minimum level is set at one and one-sixth of the level of the minimum wage and the maximum level is roughly five times of the minimum wage.[69] The minimum level, depending on occupational category, ranges from the lowest €748.2 (HK$8,170) for workers under the age of 18 and unskilled workers to the highest €1,045.2 (HK$11,414) for engineers and university graduates. The monthly maximum level is €3,230.1 (HK$35,273) for all categories of occupation in 2011.

68 Under this arrangement, the employer enters into a part-time employment contract with the pensioner concerned and recruits a candidate to take up the full-time job left by the pensioner. This arrangement serves the dual purposes of easing the employee's gradual transition from working to retirement and enabling the job seeker to enter the job market earlier.

69 The minimum wage is determined by the government each year, currently at €641.4 (HK$7,004) per month for workers aged 18 or above. Nevertheless, the minimum wage for each occupational category is usually negotiated through collective labour agreements.

4.4.6 The contribution rates vary with schemes. For example, contribution rate of the General Social Security Scheme is 28.3% of an employee's monthly income, of which 23.6% borne by employers and 4.7% by employees.[70] Further, both employers and employees are not required to make contributions if the employees have already paid contributions for at least 35 years and continue to work after the age of 65.

4.4.7 For the self-employed, they bear the entire contribution based on a contribution rate ranging from 26.5% to 29.8%. They can choose the amount they want to contribute between the monthly minimum of €850.2 (HK$9,284) and the monthly maximum of €3,230.1 (HK$35,273).

Benefit rates

4.4.8 The amount of benefits receivable under the contributory Public Pension Scheme is calculated on the basis of the years of contribution and a reference income, and is further adjusted in case of early or deferred retirement. The calculation of pension benefits is based on three qualifying periods. The first 15 contribution years qualify for a monthly pension of 50% of the average of the 180 monthly earnings immediately prior to retirement age. The monthly pension will be increased by an extra 3% for each additional year of contribution between year 16 and year 25, and by a further 2% for each additional year of contribution exceeding 25 years. The maximum accrual is 100%, reached after 35 years of contribution.

4.4.9 If the calculated pension benefits for a pensioner with at least 15 contribution years are lower than the minimum pension set by the government, the pensioner can apply for a pension supplement to reach the minimum pension level. To be eligible for the means tested pension supplement, the income of a single pensioner, excluding the contributory pension, must be under €6,923.9 (HK$75,609) per annum, equivalent to HK$6,301 per month. For a pensioner with a dependent spouse[71], his or her income should not exceed €8,076.8 (HK$88,199) per annum, or HK$7,350 per month. The income test of pension supplement is thus more lenient than that of the non-contributory pension.

70 Employers and employees are also required to make contributions for other purposes, such as funding for unemployment benefits, employees' training programmes and guarantee of salary payments in case of enterprise bankruptcy.

71 Dependent spouse is the spouse who is living with the pensioner and does not receive any pension benefits.

4.4.10 The amount of contributory pension benefits differs for early and deferred retirement. For example, if employees with more than 30 years of contribution are involuntarily terminated at the age of 60 or 61, the pension receivable is reduced for each year before the age of 65 according to the number of years of contributions.[72]

4.4.11 Meanwhile, if a pensioner decide to receive his or her pension after the age of 65, the pension rate is increased by 2% for every additional year of employment if he or she has a contributory period of less than 40 years. The corresponding rate will be a higher 3% for a pensioner has at least 40 years of contribution. The pension may be deferred until the age of 70, and the maximum monthly deferred pension is capped at €34,970.7 (HK$381,880) per annum, or HK$31,823 per month.

Taxation of contributory Public Pension Scheme

4.4.12 Contributions made by employers and employees to the contributory Public Pension Scheme are tax deductible, while benefits received under the Scheme are taxable income with some exceptions, such as the monthly pension received by the disabled.

Benefit adjustments

4.4.13 The benefit rate of the contributory Public Pension Scheme is adjusted annually in accordance with changes in CPI subject to a minimum and maximum pension. Nevertheless, the government has adjusted the minimum pension at a rate higher than the inflation rate to ensure the adequacy of pension.

Funding sources

4.4.14 The contributory Public Pension Scheme is funded by employer and employee contributions on a pay-as-you-go basis. For the pension supplement, it was originally financed by contributions. However, it is increasingly being financed by government revenue. The supplement is expected to become wholly government-funded by 2013.

72 The pension is reduced by 7.5% a year with 30 to 34 years of contributions, 7% with 35 to 37 years of contributions, 6.5% with 38 to 39 years of contributions, or 6% with 40 years or more of contributions.

4.4.15 As mentioned in paragraph 4.3.8, the government has established the Social Security Reserve Fund as a pre-emptive measure to pre-fund part of the future government spending on pensions. The Fund adopts an investment policy based on security, profitability and risk diversification. It invests mainly in domestic and foreign bonds, and the assets of the Fund amounted to €64 billion (HK$662.4 billion) as at December 2010, accounting for 6.1% of GDP.

4.5 Adequacy of pension payment and sustainability of the pension system

4.5.1 In view of the general trend of rising life expectancy, declining birth rate and changing economic environment among member states of the European Union ("EU"), the European Council[73] agreed upon 11 objectives at its Laeken Summit in December 2001 which set out the common policy of the EU in the field of pensions. These 11 common objectives focus on three major areas: adequacy of pensions, financial sustainability of pension systems, and modernization of pension systems in response to changing needs of the economy, society and individuals. Each member state is required to report to the Social Protection Committee[74] of the European Commission on its current situation and prospects (over the time span up to 2050) of its pension system in meeting the EU common objectives. In its latest 2008 report[75], the Spanish government highlighted its recent efforts of:

(a) ensuring the adequacy of pension by increasing the non-contributory pension and pension supplement at a rate higher than the inflation rate, and providing further protection to the disadvantaged groups, such as women and the disabled; and

(b) enhancing the financial sustainability of the pension system through implementing new legislation to tighten the eligibility requirements of the Public Pension Scheme and adopting measures to encourage employment and foster economic development.

73 The European Council defines the general political direction and priorities of the EU.
74 The Social Protection Committee is an advisory body of the EU which promotes co-operation of social protection policies between its member states and the European Commission, the executive body of the EU.
75 See Government of Spain (2008).

4.5.2 Notwithstanding the above measures, Spain's pension system is still characterized by a generous Public Pension Scheme with high replacement rates for retirees. For instance, the replacement rate for a public pensioner earning the average earnings or half of the average earnings before retirement reached 81.2% in 2010. While the contributory Public Pension Scheme is still in surplus, there have been concerns over the long-term financial sustainability of the pension system. In particular, the public pension spending is forecast to rise from 8.9% of its GDP in 2010 to 15.5% by 2050.[76] Indeed, the European Commission issued a report in 2010 questioning the adequacy and sustainability of the Spanish pension system over the next 50 years.[77] Some academic researches also indicated that the long-term finanical viability of the Spanish system was at risk.

Income poverty rate

4.5.3 The income poverty rate for people aged above 65 in Spain was 22.8% in the mid-2000s, higher than the average of 13.5% among OECD countries. According to OECD, the high rate was due to a high proportion of pensioners receiving only the minimum benefits for making contributions for a short period.[78]

4.6 Review of the retirement protection system

4.6.1 In Spain, there have been calls from various sectors for reforming the Public Pension Scheme by implementing measures to strengthen the link between contributions and benefits, increase labour force participation and control the growth of pension expenditures. The recent economic recession, coupled with the outbreak of the European sovereign debt crisis, has prompted the government to embark on a reform to improve the financial sustainability of the contributory Public Pension Scheme (see **Appendix I** for the current economic conditions of Spain).

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76 See Organization for Economic Co-operation and Development (2011b).

77 According to the European Commission (2010) p.51, "*while up to now the Spanish pension system has performed well on adequacy indicators and has not been problematic on sustainability measurements, this position will on present trends be challenged over the next 50 years, due to the strong demographic ageing and added pressures from the [financial] crisis*".

78 See Organization for Economic Co-operation and Development (2011a).

4.6.2 The *Toledo Pact* in 1995 proposed that a parliamentary committee should be created every five years to study the current pension system and evaluate its future. A result of this recommendation was the creation of the Parliamentary Commission for the Toledo Pact in 2001 to conduct a study on pension expenditures. Amid the deteriorating economic conditions in the late 2000s, the Parliamentary Commission for the Toledo Pact was re-activated in 2008 to deliberate the public pension reform package submitted by the government.

4.6.3 The reform proposes the following major changes:

(a) increasing the retirement age from 65 to 67 between 2013 and 2027. Nevertheless, employees, who have contributed for at least 38.5 years, are able to retire at the age of 65 without benefit reduction;

(b) extending the reference period for assessing the amount of contributory pension from 15 to 25 years while keeping the minimum period to be eligible for contributory pension at 15 years;

(c) extending the contributory period required to receive a full pension from 35 to 37 years and changing the computation of contributory period from an annual to a monthly basis;

(d) postponing the age of early retirement from 61 to 63 and tightening the eligibility requirements for early retirement, such as extending the contributory period from 30 to 33 years;

(e) reducing the benefits for early retirement by adjusting the annual reduction rate from the current 6%-7.5%, depending on the contributory period, to a fixed rate of 7.5%; and

(f) ensuring the long-term sustainability of the public pension system by reviewing the parameters of the system every five years from 2027 to reflect any changes in life expectancy.

4.6.4 The government has estimated that the above proposed reform measures, if approved by Parliament, can reduce the public pension expenditures by the equivalent of 3.5% of GDP in 2050 and lower the replacement rate for a pensioner earning the average earnings from the current 81.2% to the target of 73.9%.

Chapter 5 – Taiwan

5.1 Historical development

5.1.1 In Taiwan, retirement benefits were first provided to workers through the enactment of the *Labor Insurance Act* in 1958 to establish the contributory Labor Insurance Scheme for the purposes of improving workers' livelihood and promoting social security. At that time, the Scheme provided cash and medical benefits only. The *Labor Insurance Act* was amended in 1979 to expand the coverage of retirement benefits with the Labor Insurance Scheme split into ordinary insurance and occupational accident insurance with tripartite contributions from the government, employees and employers. Ordinary insurance covers five types of benefits, which are old age, maternity, injury/sickness, disability and death benefits, while occupational accident insurance provides four types of benefits, which are medical, injury/sickness, disability and death benefits.

5.1.2 As the Taiwan economy took off and labour-intensive industries flourished in the 1980s, the government considered that there was a need to better protect workers' rights and interests. This resulted in the passage of the *Labor Standards Act* in 1984 to (a) stipulate some minimum standards for working conditions including basic wages[79] and standard working hours, (b) protect workers' rights and interests such as retirement benefits, (c) improve employee-employer relationships, and (d) promote social and economic developments.

5.1.3 The *Labor Standards Act* also provided for the establishment of another labour retirement scheme – the Labor Pension Programme – as additional safeguard for the retirement life of working population. Under the Labor Pension Program, employers were allowed to contribute 2% to 15% of an employee's monthly wages[80] to a retirement savings account on behalf of the employee.

[79] In Taiwan, the government uses the term "basic wage", rather than "minimum wage".
[80] In practice, employers often contributed the lower limit of 2% to meet the basic requirement.

5.1.4 Under the Labor Pension Programme, an employee received a lump sum pension granted upon retirement. The maximum amount of pension payment was equal to 45 times the employee's average wage in the six months prior to retirement. An employee was eligible to apply for retirement after having been employed by a company for 25 years. Alternatively, an employee could retire at age 55 as long as he or she had worked for the same company for at least 15 years. At that time, the Taiwan economy was dominated by small and medium-sized enterprises with a generally short life span. As such, many workers were not eligible to receive the pension under the Labor Pension Programme, since they might not be able to stay at the same company for at least 15 years.

5.1.5 At end-1990s, the government decided to reform the labour pension system in an effort to safeguard the living standards of retired people, eliminate deficiencies of the pension system, and avoid the entitlement to pension benefit being affected by employees' change of jobs. After several years of discussion to nail down the details of the pension programme, the *Labor Pension Act* was enacted in June 2004 and implemented in July 2005. Serving as an important base of the current pension system, the *Act* provides for the establishment of a new Labor Pension Programme to complement the Labor Insurance Scheme.[81] The new Labor Pension Programme features mandatory employer contributions and a portable individual pension account that moves with employees as they change jobs.

5.1.6 The government has allowed those who were enrolled in the old pension scheme under the old *Labor Standards Act* to switch to the new Labor Pension Programme. But they are not required to do so as the government has committed to continuing the operation of the old pension programme. However, more than 90% of the workers under the old pension programme have chosen to join the new Labor Pension Programme, as they are subject to less stringent eligibility requirements for retirement benefits. As for new pensioners, they are only allowed to join the new Labor Pension Programme.

[81] In other words, an employee in Taiwan can participate in both the Labor Pension Programme and the Labor Insurance Scheme.

5.1.7 In June 2007, the government passed another important piece of legislation – the *National Pension Act* – to provide pubic pension to the needy elderly as well as non-employees (e.g. housewives and the unemployed) who may not be adequately covered by social insurance when they become old, and/or suffer from physical or mental disability. The National Pension Programme went into effect in October 2008.

5.1.8 As a result of the above development, the existing retirement protection system in Taiwan[82] is characterized by a multi-pillar arrangement comprising:

(a) public pension schemes – featuring the National Pension Programme as the zero-cum-first pillar, and tripartite contributory Labor Insurance Scheme (with contributions from the government, employees and employers) as the first pillar;

(b) an occupational pension scheme – comprising the mandatory employers' contributory Labor Pension Programme as the second pillar; and

(c) voluntary contributions to the Labor Pension Programme and private pension plans as the third pillar.

5.2 Governing legislation and responsible authorities

<u>Governing legislation</u>

5.2.1 Article 153 of the Taiwan *Constitution* stipulates that the government has the responsibility to improve and protect the livelihood of the labour force. This provision lays the constitutional foundation for the enactment of the following three important pieces of retirement protection legislation:

(a) the *National Pension Act* governing the National Pension Programme.

[82] The Research Division notes that there is an Old Age Farmers' Welfare Allowance Programme offered in Taiwan. Due to the small population size of farmers in Hong Kong, this research report does not cover this Programme.

(b) the *Labor Insurance Act* regulating the contributory Labor Insurance Scheme; and

(c) the *Labor Pension Act* establishing the mandatory employers' contributory Labor Pension Programme.

5.2.2 The *National Pension Act*, aiming at extending Taiwan's social safety net to its entire adult population, stipulates that any citizens aged above 25 and under 65 who are not covered by any social insurance programmes currently available to private sector employees, civil servants and teachers will be included in the National Pension Programme. The eligible recipients are entitled to receive regular and lifelong pension benefits.

5.2.3 The *Labor Insurance Act* provides for the establishment of the Labor Insurance Scheme to offer labour insurance benefits payments under two main categories: ordinary insurance and occupational accident insurance. Amendments to the *Labor Insurance Act* were passed in July 2008, and came into effect in January 2009, to include the old age pension benefits in the Scheme.

5.2.4 The *Labor Pension Act* is the main legislation governing the establishment of the Labor Pension Programme. Featuring a portable individual labour pension account, the Programme aims at enhancing the retirement protection for the working population, strengthening the relationships between workers and employers, and promoting social and economic development. In particular, employers are required under the *Act* to make mandatory contributions to the Labor Pension Fund established under the Programme.

Responsible authorities

5.2.5 As a cabinet-level agency, the Council of Labor Affairs established under the Executive Yuan is in charge of the government's labour policy. The Council is led by one minister, two deputy ministers and one chief secretary, under which there are eight departments covering labour pension, labour insurance, labour relations, labour standards, labour welfare, labour safety and health, labour inspection, and labour planning and statistics respectively.

5.2.6 The Council of Labor Affairs has set up an affiliated agency, the Bureau of Labor Insurance, for administering the daily operation of the National Pension Programme, the Labor Insurance Scheme and the Labor Pension Programme. Meanwhile, the Labor Pension Fund Supervisory Committee, established under the Council of Labor Affairs, is entrusted investing with the National Pension Fund and Labor Pension Fund.[83] The Committee has 21 members, consisting of one full-time chairperson and one full-time vice chairperson, six persons from national labour groups, one person from a national employer group, 10 persons from academic and commercial fields, one person from the Securities and Futures Bureau of the Executive Yuan, and one person from the Ministry of Finance.

5.2.7 Meanwhile, the Labor Insurance Supervisory Commission is established under Article 5 of the *Labor Insurance Act* to be entrusted with supervision of labour insurance operations and settlement of insurance disputes. At present, the Commission is led by a full-time chairperson and assisted by 16 supervisory commissioners, consisting of six workers' representatives, four employers' representatives, four specialists and two government officials.

5.3 National Pension Programme

<u>Coverage</u>

5.3.1 The National Pension Programme comprises two components, namely (a) a non-contributory scheme providing basic pension to the needy elderly aged 65 or above, and (b) a contributory scheme covering aged above 25 and under 65 who are not eligible for the contributory Labor Insurance Scheme and the mandatory Labor Pension Programme. At the end of 2011, about 3.78 million people participated in the contributory scheme of the National Pension Programme.[84]

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83 The National Pension Fund is the seed money appropriated by the Taiwan government to kick-start the National Pension Programme in 2008. For the Labor Pension Fund, it receives and invests the contributions made by employers and employees to the Labor Pension Programme.

84 See 內政部社會司(2012).

Funding sources

5.3.2 When the National Pension Programme was launched in October 2008, the Ministry of Interior appropriated NT$37 billion (HK$9.8 billion[85]) as the seed money to establish the National Pension Fund to kick-start the contributory pension scheme of the Programme. Since then, the funding sources of the Programme have come from the premiums received, government subsidies and investment return of the National Pension Fund.

5.3.3 The premium rate of the National Pension Programme is set at 7% of a particular wage level and rises by 0.5% every two years, with the limit of 12%. The monthly premium, currently at NT$1,251.6 (HK$332), is benchmarked to 7% of the national minimum monthly wage. According to the Taiwan government, the adoption of a gradual and progressive contribution rate adjustment mechanism is to ensure the sustainability of the Programme over the long term.

5.3.4 As regards the share of contributions, insurants pay 60% of the premium and the government the remaining 40%. The elderly who were aged 65 at the time of the implementation of the National Pension Programme are exempt from paying any premiums. Low-income and severely disabled insurants are also not required to pay any insurance premiums, while the government subsidizes 55% to 70% of the premiums paid by less disadvantaged individuals. In 2011, low-income and disabled insurants accounted for 12.9% or some 487 000 of the number of total insurants covered by the National Pension Programme.[86]

Benefit rates

5.3.5 The types of benefits offered by the National Pension Programme include old age pension benefits, disability pension benefits, survivors' pension benefits and funeral benefits. Meanwhile, the Old-age Citizens' Welfare Allowance has been integrated into the Programme.

85 Based on the average exchange rate of HK$0.265 per New Taiwan Dollar in 2011.
86 See 內政部社會司(2012).

5.3.6 Prior to the implementation of the National Pension Programme, individuals aged 65 or above were entitled to receive the Old-age Citizens' Welfare Living Allowance of NT$3,000 (HK$795) per month if they had met the income test and residency requirements. They now receive a means tested basic monthly pension of NT$3,000 (HK$795) under the non-contributory scheme of the National Pension Programme, if they have lived in Taiwan for more than 183 days per year for the last three years. The funding source of the basic pension is government revenue.

Old age pension benefits

5.3.7 For the contributory scheme of the National Pension Programme, insurants reaching the age of 65 are entitled to receive the old age pension benefits. The old age pension benefits are calculated based on the following formulae:

(a) average monthly salary × insurance coverage years × 0.65% + NT$3,000 (HK$795); and

(b) average monthly salary × insurance coverage years × 1.3%.

5.3.8 The Bureau of Labor Insurance will employ the formula that is more favourable to the insurant for calculating his or her benefits payments. Insurants will receive a lump sum payment if they have contributed to the National Pension Programme for less than 10 years. For insurants contributing to the Programme for 10 years or more, they will receive their pension payments on a monthly basis.

Taxation of the National Pension Programme

5.3.9 The premium paid by insurants for the National Pension Programme are tax-deductible. Nevertheless, the pension payments are subject to tax.

Management of the National Pension Programme

5.3.10 The Council of Labor Affairs oversees the daily operation of the National Pension Programme carried out by the Bureau of Labor Insurance, while the Labor Pension Fund Supervisory Committee is tasked with investing the National Pension Fund. At end-November 2011, the total assets of the National Pension Fund amounted to NT$100.9 billion (HK$26.7 billion), of which 77% were domestic investments on assets such as time deposits and equity, and the remaining 23% were overseas investments mainly in bonds.

5.4 Tripartite contributory Labor Insurance Scheme

Coverage

5.4.1 Under the contributory Labor Insurance Scheme, companies with five or more employees aged above 15 and below 60 are required to participate in the Scheme. Companies having less than five employees of the above age group may join the Scheme voluntarily.

5.4.2 The Labor Insurance Scheme offers ordinary insurance and occupational accident insurance. Ordinary insurance covers five kinds of benefits, which are old age, maternity, injury/sickness, disability and death benefits. Occupational accident insurance provides four kinds of benefits, namely medical, injury/sickness, disability and death benefits. Participating employees and employers are required to pay premiums for both ordinary insurance and occupational accident insurance.

5.4.3 In 2010, the Labor Insurance Scheme enrolled 9.4 million employees working in about 490 000 companies, and the total premiums received amounted to NT$207.2 billion (HK$54.9 billion).

Eligibility requirements

5.4.4 The Labor Insurance Scheme offers three types of payment – old age pension benefits, old age lump sum benefits and one time old age benefits – for different categories of insurants.

Old age pension benefits

5.4.5 An insurant may claim old age pension benefits if he or she meets one of the following two conditions:

(a) aged 60 or above with insurance coverage over 15 years and has resigned from work and withdrawn from insurance coverage; and

(b) has been employed for more than 15 years in dangerous and physical hard labour, or work of special nature, and has resigned from work and withdrawn from insurance coverage.[87]

5.4.6 The calculation of the old age pension benefits is based on one of the following formulae:

(a) average monthly insured salary × insurance coverage years × 0.775% + NT$3,000 (HK$795); or

(b) average monthly insured salary × insurance coverage years × 1.55%.

5.4.7 The Bureau of Labor Insurance will employ the formula that is more favourable to the insured for calculating the benefits, and the pension benefits are paid on a monthly basis. The Bureau has stated that such payment arrangement has the advantage of reducing the short-term financial pressure of the contributory Labor Insurance Scheme.

Old age lump sum benefits

5.4.8 An insurant aged 60 or above with insurance coverage of less than 15 years will be paid one month of his or her average monthly insured salary for each coverage year. The insurance coverage of the old age lump sum benefits is up to the age of 65.

[87] The nature of dangerous, physical hard labour or work of special character is defined by the government. Some examples are: workers handling and manufacturing ammonia and herbicides or employed in work places exposed to the vapour of such chemicals; and workers taking up work requiring frequent and long-term pressure on joints.

One time old age benefits

5.4.9 Employees who joined the Labor Insurance Scheme prior to the amendment of the *Labor Insurance Act* in July 2008 are not eligible for the above two pension benefits. Instead, they can apply for the one time old age benefits receivable upon retirement after meeting one of the following requirements:[88]

(a) aged 55 (for males) or 60 (for females) subject to a minimum insurance coverage of one year;

(b) aged 55 or above with an insurance coverage of over 15 years;

(c) at any age if having worked for the same company for over 25 years;

(d) aged at least 50 years of age with an insurance coverage of over 25 years; and

(e) aged at least 55 years of age and has been employed for more than five years in dangerous and physical hard labour, or work of special character certified by the government.

5.4.10 As regards the payment amount, one month of the average monthly insured salary will be provided for each full year of insurance coverage. If the total insurance coverage is more than 15 years, for the part which is more than 15 years, two months of the average monthly insured salary will be provided for each extra year of insurance coverage, subject to a cap of 45 months. Five years at most will be counted for the insurance coverage after 60 years of age。

88 See Bureau of Labor Insurance (2009).

Funding sources

5.4.11 The premium rate of ordinary insurance and occupational accident insurance is determined on different bases. The premium rate of ordinary risk is currently prescribed at a rate of 8.5% of an insurant's monthly salary, with annual increases of 0.5% to 10% and followed by biennial increases of 0.5% up to 13%.[89] The government has adopted a gradual and progressive contribution rate adjustment mechanism to ensure the sustainability of the Scheme in the long term. Meanwhile, the premium rate of occupational accident insurance varies according to the categories of occupations.

5.4.12 Insurance premiums for ordinary insurance are paid jointly by employers, employees and the government. When an insurant has a regular employer, 70% of the ordinary risk insurance premium is contributed by the employer, 20% by the insurant and 10% by the government. The premiums for occupational accident insurance are solely borne by the employer.

5.4.13 When an insurant does not have a regular employer or is self-employed and affiliated with an occupational union, he or she will bear 60% of the premium for both ordinary risk and occupational accident insurance, and the government will pay the remaining 40%.

Taxation of the Labor Insurance Scheme

5.4.14 The insurance premiums of the Labor Insurance Programme contributed by employers, employees, and insurants other than employees are tax-deductible. However, the old age benefits, including pension benefits, are subject to tax.

Management of the Labor Insurance Scheme

5.4.15 The Bureau of Labor Insurance is responsible for running the daily operations of the Labor Insurance Scheme, while the Labor Insurance Supervisory Commission oversees the performance of the Bureau and resolves disputes related to the Scheme.

[89] This rate includes charges for maternity, disability and death benefits.

5.4.16 The investment of the premiums received under the Labor Insurance Scheme is partially outsourced to external asset management companies. There are quantitative investment restrictions set for both the Bureau and the asset management companies. For example, a maximum of 35% of assets may be invested in overseas markets, and a maximum of 5% of assets may only be invested in any single domestic equity or domestic fund.

5.5 Mandatory employers' contributory Labor Pension Programme

<u>Coverage</u>

5.5.1 In accordance with Article 7 of the *Labor Pension Act*, most employees[90], including part-time workers, temporary workers and work-study students, are covered by the mandatory employers' contributory Labor Pension. At the end of 2010, the number of participants of the Labor Pension Programme reached 5.2 million, coming from a total of 418 300 business units.

<u>Funding sources</u>

5.5.2 Under the Labor Pension Programme, employees are entitled to receive the employer contributions made to their individual pension account set up under the Labor Pension Fund, subject to a minimum amount of NT$1,500 (HK$398) and a maximum limit of NT$150,000 (HK$39,750).[91] Employers are required to contribute not less than 6% of their employees' monthly salary. Employees may opt to contribute up to 6% of their monthly salary on top of the compulsory employer contribution for saving purposes.

[90] Civil servants/salaried public sector employees and private school staff have their respective pension programmes.
[91] See 楊靜利、黃于珊(2009).

Benefit rates

5.5.3 The amount of the pension benefits is determined by the monthly contribution and the number of years over which contributions are made to the Labor Pension Programme. The number of contribution years determines whether an employee can receive his or her pension benefits as a lump sum payment upon retirement or a lifelong stream of monthly payments. Employees should withdraw their payment in a lump sum when reaching age 60, if they have worked for less than 15 years during which premiums were paid into their individual pension account. The pension receivable includes the principal and accrued returns in an employee's personal pension account.

5.5.4 For employees who have worked for 15 years or more during which premiums were paid into their individual pension account, they will be eligible to receive their pension in monthly instalments when reaching the age of 60 even if they continue to work. The amount of monthly instalment depends on the contributions and earnings accumulated in an employee's pension account, with adjustments based on the average life expectancy, retirement age and other factors.

Guaranteed rate of return

5.5.5 The Labor Pension Programme provides for a minimum guaranteed rate of return. According to Article 23 of the *Labor Pension Act*, the return rate accrued from an employee's pension account should not be less than the two-year bank deposit rate. In the event of any deficiency, the government shall make up for the shortfall. The guaranteed return helps cushion the pensioners from the fluctuations in the performance of the global financial market. For reference, the guaranteed rate of return in 2011 was 1.31%.

Annuity insurance

5.5.6 The *Labor Pension Act* allows for an employer with over 200 employees to purchase annuity insurance from registered insurance companies in Taiwan in lieu of contributing to the Labor Pension Fund. However, such arrangement must require the approval of the related labour union, or if no labour union exists, the consent of over one-half of the employees.

5.5.7 Similar to the funding arrangement for the Labor Pension Programme, an employer is mandatorily required to contribute not less than 6% of the employees' monthly salary to the annuity insurance purchased. Employees may also choose to voluntarily contribute a maximum of 6% of their monthly salary on top of the employer contribution. In the event that the employer fails to contribute the required amount to the annuity insurance scheme, the Bureau of Labor Insurance is empowered to impose sanctions and/or penalties.

Taxation of the Labor Pension Programme

5.5.8 The contributions made by both employees and employers to the Labour Pension Programme are fully tax-deductible. Nevertheless, the pension payments are subject to tax.

Management of the Labor Pension Programme

5.5.9 The Bureau of Labor Insurance administers the collection, payment and custody of the Labor Pension Fund, while the Labor Pension Fund Supervisory Committee is tasked with investing the Fund. In practice, the Committee has outsourced a proportion of the Fund to private asset management companies for investment purposes.

5.5.10 In 2011, the value of the Labor Pension Fund decreased by 3.8% year-on-year to NT$13,049 billion (HK$3,458 billion) due to an unstable economic climate and a volatile financial market. The self-managed and externally-managed investment accounted for 61% and 39% respectively of the total amount of the Labor Pension Fund in 2011. The self-managed investment comprised mostly bank deposits and domestic debt securities, whereas the externally-managed investment involved mainly domestic and foreign equity securities and foreign debt securities.

5.6 Review of the retirement protection system

Adequacy of pension payment

5.6.1 The government has stated that Taiwan is currently faced with the problems of an aging population and declining birth rate. As such, the enhancement of the economic security in old age for the working population has become an important policy issue.

5.6.2 According to the Taiwan government[92], the current retirement benefits system has provided four pillars of protection for the elderly. The zero pillar provides the elderly with a minimal level of protection through the non-contributory basic pension payable under the National Pension Programme. The first pillar comprises the contributory pension of the National Pension Programme and the contributory Labor Insurance Scheme. The second pillar, the mandatory Labor Pension Programme, is an occupational pension covering the working population. The third pillar is voluntary savings elements contained in the occupational and private pension schemes that enable individuals to save more for their retirement.

5.6.3 The government has used an example to illustrate how a worker could manage to achieve basic economic security after retirement. For an insurant with 30 years of insurance coverage, he or she would achieve a replacement rate of 46.5% upon retirement through the zero and first pillars, and a further 21.6% via the second pillar. In other words, the insurant would end up with a total replacement rate of 68.1%[93], exceeding the minimum standard of 55% as recommended by the International Labour Organization.

Income poverty rate

5.6.4 The Research Division cannot find the official income poverty rate of Taiwan from the public domain.[94]

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92 See Bureau of Labor Insurance (2008).

93 The Taiwan government has not provided any details for the calculation of the replacement rate.

94 The Alliance for Universal Pensions has quoted the figure of 48% from a research paper entitled "*Contrasting approaches to old-age income protection in Korea and Taiwan*" published by Young Jun Choi and Jin Wook Kim in 2010.

Sustainability of the retirement system

5.6.5 According to an academic at the National Taiwan University[95], he was not aware of any review of Taiwan's public pension and social insurance programmes published in the public domain. As for the substantiality of Taiwan's public pension programmes, he claims that it is quite difficult to determine whether the pension programmes can be sustained in the long term, against the volatility of the global financial markets.[96]

5.6.6 In any event, the academic believes that the following government measures should enable Taiwan's public pension system to become more sustainable in the long term:

(a) easing of the short-term financial pressure on the contributory Labor Insurance Scheme by allowing the accrued old age pension benefits to be paid as a monthly pension. Previously, pensioners received their old age pension benefits as a lump sum payment upon retirement; and

(b) adopting a gradual and progressive increase in the contribution rates for the National Pension Programme and Labor Insurance Scheme.

95 The academic is Professor FU Tsung-hsi at the Department of Social Work of the National Taiwan University.

96 The Research Division has written to the Council of Labor Affairs for information on the sustainability of the retirement protection system. However, the Council has not replied as at the publication of this research report.

Chapter 6 – Hong Kong

6.1 Historical development

6.1.1 In Hong Kong, the issue of establishing a retirement protection system to provide sufficient financial security for the retirees has been under keen discussions for several decades. During the period, the Central Provident Fund was the first scheme proposed, followed by the Retirement Protection System, the Old Age Pension Scheme and the Mandatory Provident Fund ("MPF") system.

6.1.2 The feasibility of establishing the Central Provident Fund in Hong Kong was mooted for discussion as early as 1966, but it was rejected by the two working groups established by the Government in 1966 and 1975 respectively to study the feasibility of setting up a retirement scheme. The issue was later extensively deliberated at the Council meeting on 13 May 1987, but the opinions were generally divided on whether to establish a Central Provident Fund similar to the one in Singapore.

6.1.3 The Government established an inter-departmental "Working Group on Retirement Protection" in November 1991, which was responsible for reviewing options other than the Central Provident Fund that would enable workers to secure better retirement protection. The Working Group issued a consultation paper entitled "A Community-wide Retirement Protection System" in October 1992, in which the Government proposed to introduce a privately-managed mandatory contributory retirement scheme – the Retirement Protection System – for all full-time employees under the age of 65. However, the Government did not pursue the proposal after public consultation due to little support within the community. The Retirement Protection System was also considered by the Government incapable of helping those outside the workforce and involving higher risks endemic to privately-managed retirement schemes.[97]

[97] The risks included an absence of a mechanism in the proposed Retirement Protection System to deal with losses arising from fraud, theft or poor investment management. See Official Records of Proceedings of the Legislative Council (1995).

6.1.4 The Government proposed to the Legislative Council on 15 December 1993 its intention to pursue the compulsory, contributory Old Age Pension Scheme by providing a flat-rate monthly pension for the eligible elderly, but abandoned its proposal in January 1995 owing to diverse public opinions.

6.1.5 Subsequently, the Government introduced a bill into the Legislative Council in June 1995 related to setting up of the MPF system in Hong Kong as a mandatory, privately-managed occupational retirement scheme covering the working population. Following extensive discussions in the community and at the Legislative Council, the MPF system was adopted and came into operation on 1 December 2000.

6.1.6 According to the Government, the non-contributory social security system, the MPF system and voluntary private savings form the three-pillar model for retirement protection as proposed by the World Bank in 1994. Welfare benefits, including Comprehensive Social Security Assistance ("CSSA"), Old Age Allowance ("OAA") and Disability Allowance, are provided to the eligible recipients under the social security system.[98]

6.2 Governing legislation and responsible authorities

<u>Governing legislation</u>

6.2.1 The *Mandatory Provident Fund Schemes Ordinance* (Cap. 485), which came into effect on 1 December 2000, is the principal legislation governing the MPF system. The *Ordinance* sets out the framework for the operation and arrangement of the compulsory, employment-related retirement scheme with respect to its coverage, contribution rates and withdrawal of accrued benefits, as well as the organizational structure of the governing body.

98 The Public Assistance Scheme, which was launched in 1971 to provide cash payments to those in need, was replaced by the CSSA Scheme in 1993. The Government introduced Infirmity Allowance for the elderly (later renamed OAA) and Disability Allowance for the severely disabled in 1973. OAA and Disability Allowance, collectively known as Special Needs Allowance, were renamed Social Security Allowance in 1993.

6.2.2 Prior to the operation of the MPF system, some employers have provided voluntary retirement schemes to their employees. These voluntary schemes, known as ORSO Registered Schemes, have been regulated under the *Occupational Retirement Schemes Ordinance* (Cap. 426) since October 1993. To tie in with the implementation of the MPF system, ORSO Registered Schemes that fulfil certain conditions could, prior to the launch of the system, apply for exemption from the MPF requirements.[99] Members of such schemes may choose to remain in the existing scheme or join an MPF scheme.

<u>Responsible authorities</u>

6.2.3 The Social Welfare Department is the executive arm of the Labour and Welfare Bureau for the administration of social security system, such as processing social welfare applications, verifying applicants' information and distributing welfare benefits. The Social Security Appeal Board, an independent body comprising non-officials appointed by the Chief Executive of the Hong Kong Special Administrative Region, handles appeals against the decisions made by the Social Welfare Department on the social welfare applications.

6.2.4 Meanwhile, the statutory Mandatory Provident Fund Schemes Authority established under the *Mandatory Provident Fund Schemes Ordinance* is responsible for monitoring the operation of the MPF schemes as well as the MPF-exempted ORSO Registered Schemes. The privately-managed MPF schemes are operated by trustees approved by the Mandatory Provident Fund Schemes Authority, while the assets of the MPF schemes are invested by investment managers registered with the Securities and Futures Commission. In addition, the Financial Services and the Treasury Bureau is tasked with formulating policies and introducing legislative proposals for the MPF system and overseeing the operation of the Mandatory Provident Fund Schemes Authority.

[99] The MPF-exempted ORSO Registered Schemes are required to meet the minimum standards on trusteeship and investments under the *Mandatory Provident Fund Schemes (Exemption) Regulation*.

6.3 Non-contributory social security system

6.3.1 In Hong Kong, the social security system aims at, among other things, assisting the needy elders with various kinds of financial assistance. In particular, CSSA provides a safety net of last resort for the elders who are unable to support themselves financially to meet their basic needs. OAA offers a monthly cash allowance to eligible elders for meeting special needs arising from old age. Elders aged between 65 and 69 are eligible for Normal OAA, whereas those aged 70 or above can apply for Higher OAA.

Coverage

6.3.2 According to the Government, about 80% of the people aged 65 or above received some kinds of benefits from CSSA, OAA or Disability Allowance in 2010.[100] Analyzed by the types of allowance, there were 153 978 old age CSSA cases[101], 513 483 OAA cases and 138 150 Disability Allowance cases as at September 2011.

Eligibility requirements

6.3.3 Applicants are eligible for CSSA if they have been Hong Kong residents for at least seven years and meet the assets and income tests. If the applicants are living with other family member(s), the application has to be made on a household basis. In other words, the monthly income and assets of all family members will be calculated together to determine the applicants' eligibility.

6.3.4 In relating to OAA, the applicants must satisfy certain residence requirements, which are:

(a) being Hong Kong residents for at least seven years;

(b) residing in Hong Kong continuously for at least one year immediately before the application; and

100 See Labour and Welfare Bureau and Financial Services and the Treasury Bureau (2010).
101 Old age CSSA cases refer to those aged 60 or above receiving CSSA payments.

(c) residing in Hong Kong for not less than 60 days in a payment year during receipt of allowance.

6.3.5 Higher OAA recipients are not subject to any assets and income tests, but Normal OAA applicants are eligible for the allowance if their assets and monthly income do not exceed the prescribed limits. For a single person, the monthly income and assets limits are HK$6,660 and HK$186,000 respectively. The corresponding income and asset thresholds for a married couple are HK$10,520 and HK$281,000.

Benefit rates

6.3.6 Both Normal OAA and Higher OAA recipients receive a flat-rate benefit of HK$1,090 per month with effect from 1 February 2012. In contrast, there are three types of CSSA payments, namely standard rates, supplements and special grants, available for meeting the basic and special needs of the elderly. The standard rates for CSSA recipients aged 60 or above ranges from HK$2,660 to HK$4,810 per month effective from 1 February 2012, depending on factors such as whether the recipients are able-bodied or disabled, living alone or with their family members, and whether requiring constant attendance or not. Elderly are also entitled to apply for the long-term supplement[102] and community living supplement.[103] Meanwhile, special grants, including payments to cover rent, medically-recommended diet, and costs of medical and rehabilitation appliances, are available on a monthly or one-off basis for meeting particular needs of recipients (including the elderly).

Taxation of benefits

6.3.7 Welfare benefits received under CSSA and OAA are not subject to tax.

[102] An annual long-term supplement is payable to families involving any member who is old, disabled or medically certified to be in ill-health for the replacement of household and durable goods if they have received CSSA continuously for 12 months or more.

[103] A monthly community living supplement is payable to CSSA recipients who are old, disabled or medically certified to be in ill-health and are not living in institutions to better support their stay in the community.

Benefit adjustments

6.3.8 The rates of CSSA and OAA are adjusted annually based on the Social Security Assistance Index of Prices, an index compiled by the Census and Statistics Department to reflect the impact of price changes on welfare recipients.

Funding source

6.3.9 Both CSSA and OAA are funded entirely by government revenue.

6.4 Mandatory Provident Fund system

6.4.1 The non-redistributive, privately-managed MPF system is a mandatory, employment-related contributory scheme. The MPF system, together with the ORSO Registered Schemes and statutory pension/provident fund schemes for civil servants and teachers, helps the working population replace some portion of their pre-retirement income.

Coverage

6.4.2 Both regular/causal employees[104] and self-employed persons aged between 18 and 65 are required to join the MPF schemes, unless they are exempt. Exempt persons include domestic employees, self-employed hawkers and people covered by overseas retirement schemes.

[104] Regular employees are those employed for 60 days or more under a continuous contract of employment, whereas casual employees refer to those engaged in the construction or catering industries and employed on a day-to-day basis or for a short term fixed period less than 60 days.

Contribution rates

6.4.3 An employee and his or her employer are each required to make a monthly mandatory MPF contribution, which is equivalent to 5% of the employee's relevant income[105], with a cap of HK$20,000 per month.[106] With effect from 1 November 2011, employees with monthly earnings less than the minimum relevant income level of HK$6,500 are exempt from contributing to their own MPF accounts, but their employers are still required to make the 5% contribution. Employers and employees may contribute in excess of the maximum relevant income level (i.e. HK$20,000 per month) on a voluntary basis.[107]

6.4.4 For the self-employed, they are required to contribute 5% of their relevant income to the MPF schemes, subject to the same maximum and minimum relevant income levels applicable to the contribution of regular employees.

Management of Mandatory Provident Fund schemes

6.4.5 Contributions collected from employers and employees are credited into members' individual account as accrued benefits under registered MPF schemes administered by approved trustees. Employers are obliged to arrange for employees to become members of a registered MPF scheme, from which the employees can choose any constituent fund(s) for saving purposes.

6.4.6 The funds available to MPF members include Money Market Fund with a rate of return comparable to the Hong Kong Dollar savings rate, Guaranteed Fund with a guaranteed rate of return, Bond Fund, Equity Fund, and Mixed Asset Fund which invests in stocks and bonds.

[105] Relevant income includes the payments in monetary terms received by employees, such as wage, commission, bonus, gratuity and allowance, but excludes long service payment and severance payment.

[106] In June 2011, the Government introduced the *Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 3) Notice 2011*, which proposed to increase the maximum monthly relevant income level from HK$20,000 to HK$25,000. The proposal was approved by the Council meeting held on 23 November 2011 and will come into force on 1 June 2012.

[107] Mandatory contribution for casual employees is calculated differently from that of regular employees as described above. For example, for a casual employee who is paid less frequently than once a day (e.g. on a weekly or bi-weekly basis), both employer and employee are each required to contribute 5% of the employee's relevant income for the contribution period subject to a maximum contribution of HK$32.5 per day.

6.4.7 There were 19 approved trustees, 41 registered MPF schemes and 424 constituent funds as at June 2011. The net asset value of all MPF schemes amounted to HK$384 billion as at end-June 2011, representing an annual average rate of return of 5.1% (net of fees and charges) between December 2000 and June 2011.[108]

Withdrawal of accrued benefits

6.4.8 MPF scheme members may withdraw their accrued benefits as a lump sum from the schemes at the age of 65. Early withdrawal of the benefits is permitted under the following circumstances:

(a) early retirement at the age of 60;

(b) permanent departure from Hong Kong;

(c) total incapacity;

(d) death[109]; or

(e) total accrued benefits not exceeding HK$5,000, provided that no contributions were made over the past 12 months and members have declared that they would not be employed or self-employed within the foreseeable future.

Replacement rate of Mandatory Provident Fund system

6.4.9 According to OECD, MPF scheme members in Hong Kong had a relatively low replacement rate. In 2009, the replacement rate for a MPF scheme member earning half of the average earnings before retirement was only 35.4%.

[108] See Mandatory Provident Fund Schemes Authority (2011b).

[109] For claims of payment on grounds of death, only personal representatives within the meaning of the *Mandatory Provident Fund Schemes Ordinance* may act on behalf of the deceased scheme members to claim for payment of the member's accrued benefits.

Taxation of Mandatory Provident Fund benefits

6.4.10 Tax concessions are available for the employer and employee mandatory MPF contributions. Employer contributions are tax deductible, to the extent that the deduction does not exceed 15% of the employees' annual income. Mandatory contributions from employees and the self-employed are also tax deducible, subject to a maximum amount of HK$12,000 per annum.

6.4.11 Accrued benefits withdrawn from the MPF schemes upon retirement are exempt from tax. However, benefits withdrawn in some circumstances are subject to tax. For instance, employers' voluntary contributions are taxed in full if employees choose to permanently depart from Hong Kong and withdraw their benefits even though they have not terminated the employment service with their employers.[110]

Funding sources

6.4.12 The MPF system is financed by the contributions from employers and employees, investment returns from the accumulated contributions and occasional government contributions. Although the Government does not bear any recurrent cost of the MPF system, it may inject funds into the system for specific purposes. For example, the Government injected HK$600 million in 1999 as the seed money for the establishment of the MPF system. In 2009, the Government approved a one-off grant of HK$9 billion to inject HK$6,000 into the accounts of MPF holders earning less than HK$10,000.

6.5 Major concerns about social security system and Mandatory Provident Fund system

6.5.1 In recent years, some Members and welfare-related non-governmental organizations ("NGOs") have expressed their concerns over the retirees being unable to receive the necessary financial support from the CSSA Scheme and the MPF system. Their major areas of concern are summarized in the paragraphs below.

[110] See Inland Revenue Department (2006).

Comprehensive Social Security Assistance Scheme

6.5.2 The Government has set out the general requirement for applying CSSA on a household basis. While the elderly can apply for CSSA on an individual basis, they are not eligible to do so if their family member(s) decline to make the statement on non-provision of financial support or provide documents to prove that their income is unable to support the elders concerned even though they are living together. Hence, the Government should allow the elderly to apply for CSSA on an individual basis without the above requirement.

6.5.3 In addition, CSSA standard rates are considered insufficient for meeting the daily expenses of the recipients. As such, the Government should review the items of goods and services currently covered by the Social Security Assistance Index of Prices and update the expenditure pattern of CSSA households on essential items.

Mandatory Provident Fund system

6.5.4 The MPF system is unable to benefit the current generation of older people and low-income earners. Given the MPF system takes 30 to 40 years to mature, the current generation of older people may not be able to accumulate sufficient amount of MPF savings to support their retirement life. Low-income earners should also find it difficult to accumulate adequate savings for their retirement in view of their low contributions to the MPF schemes during the working life. High MPF management fees further affect the adequacy of their MPF savings to replace pre-retirement income.

6.5.5 In addition, the MPF system does not cover people outside the labour force such as housewives. The MPF system is also not entirely satisfactory since employers are allowed to offset the long service payments or severance payments by their employer MPF contributions.

Latest developments on Mandatory Provident Fund system

6.5.6 In view of the deficiencies of the MPF system, a motion not intended to have legislative effect to urge the Government to conduct a comprehensive review of the MPF system was passed at the Council meeting on 2 November 2011. The motion has requested the review to cover the following aspects:

(a) allowing retirees to withdraw their accrued benefits by instalments after the age of 65;

(b) consulting the community to ascertain the inadequacies of the MPF system and how retirement protection can be effectively offered to all elderly;

(c) prompting the Mandatory Provident Fund Schemes Authority to enhance employees' right to choose through promoting greater market competition among the MPF scheme providers, for example, expeditiously implementing a full portability arrangement for the MPF schemes;

(d) allowing MPF scheme members to apply for suspension of contributions or partial withdrawal of their accrued benefits under exceptional circumstances such as critical illness to meet urgent needs;

(e) streamlining the management and administrative procedures of the MPF schemes and reducing the operating costs of the schemes; and

(f) prompting the Labour Advisory Board [111] to discuss the mechanism allowing the employer MPF contributions to be used for offsetting the long service payments or severance payments.

[111] The Labour Advisory Board is a non-statutory body established to advise the Commissioner for Labour on labour matters. The Board is chaired by the Commissioner for Labour and comprises 12 unofficial members, half representing employers and the other half representing employees.

6.5.7 Indeed, the MPF system has undergone a number of changes in recent years, focusing mainly on improving the operation of the system and protection of participating members. The passage of the *Mandatory Provident Schemes (Amendment) Ordinance 2009*, which is expected to be implemented in 2012, will empower employees to transfer the benefits from scheme to scheme during their current employment, thereby increasing employees' control over their mandatory MPF contributions. This improves on the existing arrangement under which the MPF benefits are only portable from scheme to scheme when employees change job or cease employment with existing employers.

6.5.8 In September 2011, the Management Board of the Mandatory Provident Fund Schemes Authority agreed in principle the following two proposals for improving the existing withdrawal arrangement of MPF benefits:

(a) allowing members to have greater flexibility in choosing the mode of MPF benefit payment upon retirement; and

(b) adding "terminal illness" as a new ground for early withdrawal of MPF benefits.

6.5.9 The proposals have been put forward for public consultation that will last until March 2012. According to the Mandatory Provident Fund Schemes Authority, it will review the responses received and fine-tune the proposals in the second quarter of 2012 with a view to submitting recommendations to the Government in the third quarter of 2012.

Income poverty rate

6.5.10 The Research Division cannot find the official income poverty rate of Hong Kong from the public domain.[112]

[112] According to the Hong Kong Council of Social Service, the income poverty rate of the elderly in Hong Kong was 33.4% in 2011.

6.6 Discussions on universal retirement protection scheme

6.6.1 As mentioned above, there have been concerns that the CSSA Scheme and the MPF system are inadequate for protecting the retirement life of low-income earners and the economically inactive population.[113] Some Members, NGOs, policy think tanks and academies have urged the Government to set up a universal retirement protection scheme for ensuring basic financial security of the elderly. To this end, they have proposed a number of retirement protection models to the Government for consideration.[114]

6.6.2 The Government has not ruled out the feasibility of establishing a universal retirement protection scheme, but it remains cautious about the sustainability of the scheme. Added to this, some sectors of the society are wary of the financial burden of the universal retirement protection scheme on the working population.

<u>Proposed retirement protection models</u>

6.6.3 Various retirement protection models have been put forward to the Government for consideration should it implement the universal retirement protection scheme in Hong Kong. Some of these models propose to establish a single social welfare programme by combining the CSSA and OAA benefits payable to the elderly. There are others proposing the establishment of a new retirement protection scheme featuring one or more of the following:

(a) tripartite contributions from the Government, employers and employees[115];

[113] For example, Laurence Ho Wing-him, the former Deputy Secretary for Health and Welfare, has stated that each pillar of Hong Kong's three-pillar retirement protection model has its own shortcomings. He has asked the Government to plan for the challenges to be brought about by an ageing population, thereby ensuring that all elders could live a dignified and financially-secured life in their old age. Laurence Ho is currently the Honorary Research Fellow of Hong Kong Institute of Asia-Pacific Studies of the Chinese University of Hong Kong.

[114] The Research Division summarizes the major aspects of the proposed models to facilitate Members' deliberation on the issue of retirement protection in Hong Kong.

[115] Some trade unions, such as the Hong Kong Confederation of Trade Unions and the Hong Kong Federation of Trade Unions, have made similar suggestions of setting up a universal retirement protection scheme with tripartite contributions from the Government, employers and employees.

(b) a one-off capital injection of between HK$20 billion to HK$50 billion from the Government as the start-up fund for the scheme; and

(c) partially pre-funded or fully-funded financing arrangements to ensure the sustainability of the retirement protection system.[116]

Universal Retirement Protection Scheme as proposed by the Alliance for Universal Pensions

6.6.4 The Alliance for Universal Pensions ("Alliance") has been calling for a universal retirement protection scheme and formulation of a comprehensive policy in caring for the elderly. Established in 2004, the Alliance is an umbrella organization consisting of over 80 welfare-related NGOs. In 2005, the Alliance proposed the setting up of the Universal Retirement Protection Scheme [117] to provide a monthly pension of HK$3,000 for people aged 65 or above without any means testing.[118]

6.6.5 The Alliance's 2005 retirement protection model featured a partially pre-funded arrangement with contributions from the Government, employers and employees. The government contributions came from the recurrent funding for old age CSSA and OAA. Employer and employee contributions were sourced from half of their existing mandatory MPF contributions (i.e. 2.5% of the employee's income). Moreover, additional funding came from the tax revenue raised from the increase in the existing profits tax rates by 1.75 percentage points for companies with annual profit exceeding HK$10 million.

[116] The partially pre-funded arrangement requires the Government to establish a reserve fund to pre-fund the universal retirement protection system when the pension expenditures remain relatively low. The accumulated balance of the reverse fund will be progressively drawn down to help finance the rising pension expenditures when the population ages. As for the fully-funded financing arrangement, the employer and employee contributions are accumulated and invested in pension funds. Pensioners receive the accumulated contributions plus investment returns as benefits upon retirement.

[117] See 爭取全民退休保障聯席 (2005).

[118] The proposed scheme is supported by a number of NGOs (e.g. the Hong Kong Council of Social Service) and academics (e.g. Professor Wong Hung of the Department of Social Work of the Chinese University of Hong Kong).

6.6.6 In November 2011[119], the Alliance revised its 2005 retirement protection model amid its concern over the increasingly serious problem of population ageing in Hong Kong. The revised retirement scheme continues to provide a universal monthly pension of HK$3,000 for people aged 65 or above from the contributions made by the Government, employers and employees.

6.6.7 Under the Alliance's revised model, the Government is required to tap into its hefty fiscal reserves[120] to set aside HK$50 billion as a start-up fund for the scheme. The start-up fund is to supplement the government contributions to be sourced from (a) the recurrent funding from old age CSSA and OAA, and (b) the increase in the profits tax rates by 1.9 percentage points (instead of the originally proposed 1.75 percentage points). Meanwhile, employers and employees are still required to contribute half of their existing MPF contributions to the revised scheme, subject to a salary cap of HK$30,000 per month. Same as the existing MPF arrangement, employees with a monthly income of less than HK$6,500 are exempt from contribution to the Universal Retirement Protection Scheme, while their employers are required to make their parts of contribution.

Universal Old Age Pension Scheme as proposed by Professional Commons

6.6.8 In 2010, the Professional Commons[121] issued a research report entitled "Ensure the Financial Security of the Elderly" proposing the establishment of the Universal Old Age Pension Scheme to address the shortcomings of the social security system and the MPF system.[122] Same as the Alliance's proposal, the scheme offered a non-means-tested monthly old age pension of HK$3,000 to people aged 65 or above with tripartite contributions from the Government, employers and employees.

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[119] See 爭取全民退休保障聯席 (2011).

[120] Hong Kong's fiscal reserves amounted to HK$617 billion as at 30 November 2011.

[121] During the election for the Chief Executive of Hong Kong Special Administrative Region in 2007, over 100 Election Committee members from various professional sectors joined hands to advocate for a faster pace for democracy. Many of these Election Committee members, together with like-minded professionals, have decided to build on this foundation to establish the Professional Commons after the election. As a membership-based non-profit organization, the Professional Commons aims to improve the quality of public governance and empower the community in the policy making process.

[122] See Professional Commons (2010).

6.6.9 According to the Professional Commons' 2010 proposal, the government contributions were made up of two components: a government capital injection of HK$25 billion every five years and a transfer of recurrent funding from old age CSSA and OAA. Employer and employee were each required to contribute 1.9% of the employee's income to the proposed scheme, on top of the statutory 5% contribution to the MPF schemes.

6.6.10 In October 2011, the Professional Commons revised its financing arrangements for the Universal Old Age Pension Scheme.[123] The revised scheme continues to offer a universal old age pension of HK$3,000 to people aged 65 or above from the tripartite contributions made by the Government, employers and employees. The Government has to set aside HK$50 billion as a start-up fund for the scheme, in addition to the injection of HK$25 billion every five years and the transfer of recurrent funding from old age CSSA and OAA. Employer and employee are each required to contribute a higher rate of 2.5% of the employee's income into the proposed scheme, on top of the statutory 5% contribution to the MPF schemes. Meanwhile, the contribution is subject to the maximum income of HK$50,000 per month. Employees with a monthly income less than HK$6,500 are exempt from contribution to the revised scheme, while their employers are still required to make the 2.5% contribution.

Two-tier Universal Retirement Protection Programme as proposed by the Hong Kong Social Security Society

6.6.11 The Hong Kong Social Security Society[124] ("Society") has proposed to establish a two-tier Universal Retirement Protection Programme to meet the financial needs of the retirees. The first tier of protection is offered through the replacement of the old age CSSA and OAA with life-long benefits payable to all Hong Kong permanent residents aged 65 or above. The benefit rate is set at 20% of Hong Kong's average monthly salary in the preceding year. According to the Society, using the 2006 average monthly salary of HK$16,050 as the basis and assuming a nominal salary growth of 2% per year, the average monthly salary should reach HK$19,000 in 2014. Hence, the amount of monthly pension paid in 2014 would be HK$3,800 (i.e. 20% of HK$19,000).

[123] See Professional Commons (2011) and 公共專業聯盟 (2011).
[124] It is a NGO which focuses on social security issues in the Mainland and Hong Kong.

6.6.12 As regards the funding sources, the Society has proposed the adoption of a tripartite contribution approach, with the contribution rates of the Government at 4% of the employee's monthly salary, employers at 6% and employees at 2%. Employees with a monthly salary equivalent to or less than 50% of the Hong Kong's average salary are exempt from contributing to the proposed first-tier programme, while their employers are still required to make the 6% contribution. As for those who are self-employed earning two times or more of the Hong Kong's average salary, they should contribute 4% of their monthly salary to the programme.

6.6.13 Based on the above arrangement, the Society forecasts that in 2014, the contributions made by the Government would amount to HK$28.4 billion, or 7% of the Government's budget. The Society has also stated that if the Government does not provide a Universal Retirement Protection Programme, the public expenditure on the old age CSSA and OAA would surge to HK$18 billion in 2014.

6.6.14 The second tier of protection is provided to all Hong Kong permanent residents through enhancing the existing MPF system in a number of ways. The Society has opined that the Government should take the lead responsibility of operating and investing the MPF schemes, as well as guaranteeing a minimum real rate of return of 2%. In addition, the MPF schemes should be made available to non-employees for voluntary saving purposes. MPF participating members should also be allowed to choose private insurance companies for investing their contributions, rather than by the Government. As for funding sources, the Society prefers a co-matching approach under which employees are entitled to compulsory matching employer contribution, with a maximum contribution rate of 5% or a cap of eight times of the average salary. The Society has advocated that this approach has the advantages of encouraging private savings and providing MPF members with a minimum rate of return for securing their retirement living.

Three-tier maintenance allowance for the elderly as proposed by Professor Nelson Chow Wing-sun

6.6.15 Professor Nelson Chow Wing-sun[125] has proposed to optimize the existing social security system by combining old age CSSA with OAA into a single social welfare programme. The new programme provides three tiers of monthly maintenance allowance – HK$1,200, HK$2,400 and HK$3,600 – to people aged 65 or above based on their financial situation.

6.6.16 Under the programme proposed by Professor Chow, the elderly are entitled to receive a monthly maintenance allowance of HK$1,200, which is slightly higher than the current OAA payment, without any means testing. For the elderly with financial difficulties, an allowance of HK$2,400 is payable to those with the value of their total assets less than HK$160,000. They are eligible for a higher allowance of HK$3,600 if the value of their total assets is less than HK$80,000. In addition to the maintenance allowance, income supplements such as rental assistance and medical fee waiver should be made available for the needy elderly.

6.6.17 Professor Chow's proposed programme also allows applicants to apply for the maintenance allowance on an individual basis. In addition, applicants are only subject to the assets test, instead of both assets and income tests as required by the CSSA Scheme. According to Professor Chow, it will take a great deal of efforts to change the existing retirement protection system, and his proposal has an advantage of providing better protection for the retirees without exerting additional financial pressure on the Government for establishing a start-up fund.

[125] Nelson Chow Wing-sun is a professor at the Department of Social Work and Social Administration of the University of Hong Kong.

Optimization of social security system and Mandatory Provident Fund system as proposed by Professor Wong Chack-kie

6.6.18 Professor Wong Chack-kie[126] has proposed reforming the CSSA, OAA and MPF schemes to improve the existing retirement protection system. In his proposal, the CSSA and OAA Schemes are combined into a single programme which offers a two-tiered allowance to the elderly. In terms of eligibility requirements and benefit rates, the first-tier allowance is equivalent to OAA and the second-tier allowance is the same as old age CSSA. Professor Wong has stated that the single programme will incur no additional costs on the Government and help remove the stigma attached to the CSSA recipients of being reliant on government's handouts.

6.6.19 Separately, Professor Wong has suggested the introduction of a minimum annuity to allay the concern over inadequate retirement protection of low-income earners under the existing MPF system. Retirees aged 65 or above are entitled to receive the minimum annuity if they have contributed to the MPF system for certain period[127] and the accrued MPF benefits fall short of the minimum income required for retirement as determined by factors such as life expectancy and retirement age.

6.6.20 Professor Wong has suggested the following two methods for calculating the amount of minimum annuity:

(a) 75% of the minimum monthly salary. The amount will be HK$4,368 if an employee earns the minimum wage of HK$5,824 from working eight hours a day and 26 days a month at the statutory minimum wage rate of HK$28 per hour; or

(b) the average of the old age CSSA rate and the minimum monthly salary (i.e. HK$4,812 when assuming the old age CSSA rate at HK$3,800 and the minimum monthly salary at HK$5,824).

6.6.21 For the funding of minimum annuity, Professor Wong has proposed the following three funding avenues:

[126] Wong Chack-kie is a professor at the Department of Social Work of the Chinese University of Hong Kong.
[127] Professor Wong has not specified the minimum contributory period. He has opined that it is open to discussion and may range from 10 to 30 years.

(a) investment return from a new Retirement Reserve Fund managed by the Hong Kong Monetary Authority ("HKMA"), with seed capital of HK$20 billion to HK$30 billion provided by the Government;

(b) government revenue; and

(c) a new tax specifically introduced for funding the minimum annuity.

Retirement Fund Management Trust as proposed by Dr Law Chi-kwong

6.6.22 Dr Law Chi-kwong[128] has opined to establish the Retirement Fund Management Trust that provides monthly benefits to retirees who have voluntarily placed their MPF savings with the Trust after withdrawing their accrued MPF benefits upon retirement. Same as Professor Wong Chack-kie's proposal, the Trust can be managed by HKMA for the benefits of earning a stable rate of return and minimizing the management fees. Dr Law has made a preliminary estimate showing that the Trust members who have invested HK$1 million in the Trust may receive monthly benefits of HK$3,000. However, there are views that the above proposal cannot replace the universal retirement protection scheme and may only serve as one of the options for protecting the retirement life of the elderly.

6.6.23 According to Dr Law, low-income earners and the economically inactive population may choose to place their personal financial assets with the Retirement Fund Management Trust. They are entitled to receive an income supplement from the Government if the amount of monthly benefits received is lower than the CSSA payment. As a government subsidy, the income supplement should be given only to those who meet the means test requirement.

[128] Law Chi-kwong is an associate professor at the Department of Social Work and Social Administration of the University of Hong Kong.

Cohort-based Public Pension Scheme as proposed by Professor Ho Lok-sang

6.6.24 Professor Ho Lok-sang[129] has proposed the launch of cohort-based Public Pension Scheme to provide a guaranteed minimum pension to the elderly. The scheme adopts a fully-funded arrangement with each cohort financing its own retirement without paying for the retirement benefits of other cohorts. A cohort is defined as those who were born in the same year. For instance, people who were born in 1986 (i.e. aged 25 in 2011) are treated as a single cohort. The cohort-based Public Pension Scheme contrasts with the pay-as-you-go system, as the latter is a cross generation pension scheme whereby the working age population is required to pay for the pension benefits of the retirees.

6.6.25 Professor Ho has mapped out the details for calculating the minimum pension required for supporting the basic needs of individual cohort upon retirement.[130] Given that the life expectancy of an individual cohort is almost known, each cohort is able to calculate the specific amount of contributions needed to finance the required minimum pension to be received throughout its retirement life span. The Government should guarantee a minimum rate of return to the contributions made by each cohort. Professor Ho has further explained that, assuming the guaranteed minimum rate of return of all cohorts is 2%, the Government will tax away the excess returns whenever the rates of return exceed 2%. The excess returns will then be used by the Government to supplement any shortfalls when the rates of return fall below 2%.

6.6.26 As for those with financial difficulties in making contributions to the proposed scheme, Professor Ho has suggested that the Government should assist them by subsidizing their contributions if they fulfil the means test requirement. He has opined that such arrangement has an advantage over the Alliance's model as it only focuses on helping those elderly in need, thereby saving the Government's financial resources.

[129] Ho Lok-sang is the Director of Centre for Public Policy Studies of Lingnan University.

[130] Professor Ho has not set out the amount of minimum pension required, but the amount should be sufficient to cover the retirees' basic standard of living acceptable by the community.

6.6.27 Professor Ho has also proposed to reform the existing MPF system in order to offer a more comprehensive protection to retirees. In particular, the concerns over high administrative costs and volatile investment performance of the MPF schemes render the need to allow the MPF scheme members to place their MPF savings with HKMA for investment purposes. This suggestion is similar to the proposals made by Professor Wong Chack-kie and Dr Law Chi-kwong.

Government responses

6.6.28 The Government has responded to the respective retirement protection models proposed by the Alliance and the Professional Commons.[131] As to Alliance's proposal, the Government has expressed doubt about whether the public will support the proposal under which half of an individual's monthly contributions to the MPF system will be pooled together and re-distributed to the current generation of elders regardless of their income, wealth or employment. Another issue of concern for the Government is whether such a model is sustainable in the long term in view of the ageing population, lower fertility rate and increasing life expectancy.

6.6.29 In response to the Professional Commons' proposal, the Government is concerned about its ensuing financial burden exerted on employers and employees as both parties are required to make contributions to the proposed universal retirement protection scheme on top of their existing MPF contributions. In addition, the Government's financial resources should target at helping those elderly in need, instead of providing a universal pension payment for all the eligible elders.

[131] There is no mention of the Government's comments on the retirement protection models proposed by the academics from the information collected for this research study.

6.6.30 Indeed, the Government has conducted its own study through commissioning the Central Policy Unit ("CPU") to assess the financial sustainability of Hong Kong's retirement protection scheme against the three-pillar model proposed by the World Bank in 1994. CPU started five related studies in 2004[132] and obtained some preliminary findings in 2008. The Government has planned to make available all the findings in 2012 when CPU is expected to complete the studies. As explained by the Government, the preliminary findings have to be updated and further examined to provide reliable information for assessing the sustainability of the existing system, particularly in view of the latest policy developments (such as the introduction of statutory minimum wage protection) and the changes in the socio-economic environments.

6.6.31 However, some Members have queried the necessity for CPU to refine its studies to take account of the changes in the economic environments as economic fluctuations always persist. The unduly long time taken for the CPU studies is unacceptable. Hence, they have urged the Government to provide a clear timetable for providing the CPU findings and start to study the proposed schemes without further delay.

6.6.32 In response, the Government has maintained its stance of not ruling out the feasibility of implementing a universal retirement protection scheme and sustainable options. Nevertheless, it has to assess the findings of the CPU studies and other relevant factors such as how to ensure the sustainable development of the social security system. The Government has also opined that it may be difficult for the community to reach a consensus on introducing fundamental changes to the existing retirement protection system.

6.6.33 The Government has recently proposed several policy initiatives to optimize the social security system and the MPF system so as to enhance the protection provided under these two systems. For example, to support senior citizens who choose to reside in Guangdong, a new "Guangdong Scheme" will be established to provide OAA for eligible Hong Kong retirees living in Guangdong. Furthermore, the Mandatory Provident Fund Schemes Authority is considering measures to enhance the MPF system, including the implementation of a full portability arrangement for the MPF schemes and the allowance for withdrawing accrued benefits in phases after retirement.

[132] See Labour and Welfare Bureau et al. (2011) for the details of these five related studies.

Views against universal retirement protection models

Views of Lion Rock Institute

6.6.34 The Lion Rock Institute ("Institute")[133] has considered that the proposed universal retirement protection models may impose a heavy financial burden on the working age population by requiring them to pay for the pension benefits of retirees. In the face of the ageing population, these models will inevitably render the Government to come under pressure to increase employer and employee contributions, reduce retirement benefit rates and postpone the retirement age.

6.6.35 As mentioned above, both the Alliance and the Professional Commons have proposed to transfer the recurrent funding of old age CSSA and OAA to the universal retirement protection scheme. According to the Institute, such arrangement might result in a misallocation of resources as the needy elders and the wealthier retirees alike could benefit from the universal pension payment. In addition, the needy elders might not be better off under the universal retirement protection scheme. Currently, CSSA standard rates for eligible elderly range between HK$2,660 and HK$4,810, as compared with the HK$3,000 monthly pension provided under the proposed universal retirement protection scheme.

Views of Professor Francis Lui Ting-ming

6.6.36 Professor Francis Lui Ting-ming[134] has expressed his concerns over the Alliance's proposal as well. He has opined that given the problem of an ageing population, the proposed scheme may impose a heavy burden on the decreasing number of working population to support an increasing number of retirees.

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[133] The Lion Rock Institute is a local think tank founded in 2004 advocating for a free market economy, a small government and a low tax system.

[134] Francis Lui Ting-ming is a professor at the Department of Economics of the Hong Kong University of Science and Technology.

6.6.37 Moreover, the financial commitment required to sustain the Alliance's proposed scheme is considered large. The Government has to provide funding support to the scheme so as to offer a universal monthly pension of HK$3,000 to retirees aged 65 or above. According to Professor Lui's calculation, the Government would spend a total of HK$1.1 trillion in present value terms over the next 45 years to finance the scheme, in addition to the contributions drawn from the MPF system.[135] The HK$1.1 trillion funding would be financed by the revenues generated from additional profits tax (HK$350 billion) and the recurrent funding from old age CSSA and OAA (HK$750 billion).

6.6.38 Amid the concerns over the Alliance's proposed scheme, Professor Lui has called for improving the existing MPF system through measures such as implementing a full portability arrangement for the MPF schemes and legislating on the adequate disclosure of relevant information by the MPF trustees when marketing their funds to their prospective clients.[136]

[135] See 雷鼎鳴：《為什麼「全民退休保障制度」不可行？》,《信報財經新聞》，2011年 4月 4日.

[136] The information disclosed includes the historical investment performance of the MPF funds in question and the administration fees charged by the relevant fund trustees.

Chapter 7 – Analysis

7.1 Introduction

7.1.1 The key features of the retirement protection system in Australia, New Zealand, Spain, Taiwan and Hong Kong are summarized in **Appendix II**. Based on the findings in this study, this chapter highlights the basic features of the retirement protection system in the places covered and compares how these systems fare in terms of the five-pillar model put forward by the World Bank in 2005. The World Bank model sets out the conceptual framework for the design of a pension system with five pillars to meet core objectives of pension systems – protection against the risk of poverty in old age and smoothing consumption from one's work life into retirement. The adequacy and sustainability of the retirement protection systems studied are also analysed to facilitate Members' deliberation on the issue of universal retirement protection in Hong Kong.

7.1.2 The five pillars of the World Bank model are summarized below:

(a) a non-contributory zero pillar – basic public pension plan financed by the government with the objective of providing the elderly with a minimal level of protection;

(b) a mandatory first pillar – mandatory earnings-related public pension plans;

(c) a mandatory second pillar – mandatory occupational schemes or private pension plans;

(d) a voluntary third pillar – voluntary savings for retirement, through voluntary contributions to occupational/private pension plans or other sources; and

(e) a voluntary fourth pillar – access to informal support (such as family support), formal social programmes (such as health care or housing), and individual assets (such as home ownership and reverse mortgages).

7.1.3 Based on the World Bank's five-pillar model, the structure and performance of the retirement protection system in the places studied can be summarized in **Table** below:

Table − Retirement protection system in the selected places

Pillar	Objective	Financing	Programme features	Retirement protection system				
				Australia	**New Zealand**	**Spain**	**Taiwan**	**Hong Kong**
0	Poverty alleviation. Income distribution.	Government revenue	Universal or means tested	✓	✓ Strong	✓	✓	✓
1	Income replacement. Income redistribution.	Contributions	Mandatory and publicly managed	×	×	✓ Strong	✓ Strong	×
2	Maintaining a similar pre-retirement standard of living through savings.	Contributions	Mandatory occupational/ privately managed scheme	✓ Strong	✓	×	✓ Strong	✓
3	Maintaining a similar pre-retirement standard of living through enhanced savings.	Private savings	Voluntary and privately managed	✓	✓	✓	✓	✓
4	Enhancing protection where possible.	Financial and/or non- financial assets	Voluntary and privately/ informally managed	✓ Strong (via home ownership)	✓	✓	✓	✓

7.1.4 All the places studied have established a multi-pillar retirement protection system. In order to focus on the public and occupational pension programmes provided by the places studied, the fourth pillar, consisting of retirement support outside these pension programmes, is not thoroughly examined in this study. In other words, this chapter focuses on how the places studied fare in terms of the zero, first, second and third pillars of the World Bank's five-pillar model.

7.2 Basic features of the retirement protection system in the places studied

Australia

7.2.1 In Australia, the current retirement protection system is a multi-pillar arrangement. There is a public pension, known as the Age Pension, serving as the zero pillar. A compulsory employer contribution to private superannuation schemes[137], namely the Superannuation Guarantee, is the second pillar. Private savings through voluntary employee contributions to the superannuation schemes, shares and other private savings form the third pillar. Home ownership serves as an important fourth pillar in Australia, contributing to financial security in retirement and non-superannuation savings in the country. In Australia, the home ownership rates have been fairly stable at around 70% for many decades.

7.2.2 Australia does not have any first pillar retirement scheme, which reflects more of historical and political development than any consistent policy stance. In the past, Australia has experienced several failed attempts to introduce mandatory publicly-managed occupational retirement pension schemes similar to those adopted in many other developed countries. For example, in the 1970s, there was renewed interest in the introduction of a mandatory earnings-related public pension plan in Australia. However, this was disregarded by the government of the time in favour of voluntary superannuation schemes. The trade union movement then pushed for earnings-related retirement scheme with the emphasis moving away from publicly-managed to employer-provided pension plan.

New Zealand

7.2.3 The retirement protection system in New Zealand has all along maintained a plain uncomplicated structure such that the current regime is considered one of the simplest models among developed countries. The system primarily consists of New Zealand Superannuation, a non-contributory public pension, as the zero pillar, and the KiwiSaver scheme and other occupational pensions as the second-cum-third pillar.

[137] In Australia, "superannuation scheme" is a term used to refer to an occupational pension scheme where money is placed in a fund to provide for retirement.

7.2.4 New Zealand has not established the first pillar retirement protection scheme. According to the New Zealand government, topping up the basic protection provided by New Zealand Superannuation through a second pension to achieve a higher rate of income replacement[138] should be a matter of individual responsibility and decision. The government should not be responsible for securing self-provision for retirement by managing a compulsory pension scheme for the working population.

Spain

7.2.5 Spain has adopted a multi-pillar retirement protection system. Non-contributory Public Pension Scheme, being the zero pillar of the system, offers a means tested pension to low-income elderly. In addition, the system features a strong first pillar that provides generous benefits to the working population through the earnings-related contributory Public Pension Scheme. While there is no second pillar in the country, voluntary occupational and private pension schemes constitute the third pillar of retirement protection system. However, due to the generosity of the Public Pension Scheme, both voluntary occupational and private pension schemes play a relatively insignificant role in retirement protection.

Taiwan

7.2.6 After years of reform, the current retirement protection system in Taiwan matches the five-pillar model proposed by the World Bank. The zero pillar provides the elderly with a minimal level of protection through the non-contributory basic pension payable under the National Pension Programme. The first pillar features the contributory pension payable under the National Pension Programme and the Labor Insurance Scheme. The second pillar, the mandatory Labor Pension Programme, is an occupational pension provided by employers to their employees. The third pillar is the voluntary savings elements built into in the occupational and private pension schemes that enable individuals to save more for their retirement.

[138] A replacement rate compares an individual's spending power before and after retirement. For example, a replacement rate of 75% means that an individual would be able to spend NZ$75 in retirement compared with NZ$100 before retirement.

Hong Kong

7.2.7 Similar to Australia and New Zealand, Hong Kong has not established a mandatory earnings-related public pension scheme as the first pillar of its retirement protection system. Financial assistance to the needy elderly is rendered through the non-contributory social security system consisting of Comprehensive Social Security Assistance ("CSSA") and Old Age Allowance ("OAA"). The benefits received under these social security schemes guarantee a minimum income in retirement, thereby constituting the zero pillar of the World Bank's five-pillar model.

7.2.8 The privately-managed Mandatory Provident Fund ("MPF") system has been established as the second pillar to provide retirement protection for the working population. Voluntary employee contribution to MPF and voluntary occupational retirement schemes are available as the third pillar for employees to accumulate more retirement savings. Under the MPF system, employees aged between 18 and 65 are required to contribute 5% of their monthly income to the system. They are entitled to receive compulsory employer contributions equivalent to 5% of their monthly income. Self-employed persons are also required to contribute 5% of their monthly income to the MPF schemes as well. The contributions of employers, employees and the self-employed are subject to a salary cap of HK$20,000 per month.

7.3 Comparison of the retirement protection systems studied based on the five-pillar model of the World Bank

Zero pillar

7.3.1 According to the World Bank, the zero pillar refers to non-contributory basic pension plan financed by the government with the objective of providing elderly people with a guaranteed level of protection.

Australia

7.3.2 In Australia, the zero pillar is the non-contributory Age Pension that provides a basic income support to those older Australians with no or modest income/assets. The maximum pension rate is AUS$755.5 (HK$6,127[139]) biweekly or AUS$1,511 (HK$12,254) per month for a single pensioner, and AUS$569.5 (HK$4,619) biweekly or AUS$1,139 (HK$9,237) per month for each member of a couple. The Age Pension is means tested against both income and assets, but the thresholds are set at relatively high levels. As such, around two-thirds of Australian retirees are receiving the Age Pension, rendering it one of the widest coverage public pension schemes among the Organization for Economic Co-operation and Development countries ("OECD"). However, the replacement rates from the Age Pension are relatively low, as the public pension serves not as the main component of retirement income but rather as a means to guarantee a minimum level of income. For a public pensioner earning half of the average earnings before retirement, the replacement rate was only 37.9% in 2010.

7.3.3 In addition to the replacement rate, the adequacy of the pension scheme can be reflected by income poverty rate among the elders (i.e. the proportion of the elderly aged above 65 living on incomes less than 50% of the median household disposable income). Based on the OECD's latest available data, the income poverty rate of the elders in Australia was 26.9% in the mid-2000s, the fourth highest among the OECD countries.[140]

139 Based on the average exchange rate of HK$8.11 per Australian dollar in 2011. The conversion of foreign currency into Hong Kong dollar is to facilitate Members for a broad comparison of the selected places studied.

140 In this research report, the income poverty rates of Australia, New Zealand and Spain are based on a survey complied by OECD in the mid-2000s, while that of Hong Kong comes from a report complied by the Hong Kong Council of Social Service in 2011. For Taiwan, the official rate could not be located from the public domain. Since the income poverty rates in the selected places studies were compiled by individual organizations using their own methodology, the figures reported by them might not be directly comparable.

New Zealand

7.3.4 Among the places covered, New Zealand has a strong zero pillar in the form of New Zealand Superannuation that provide a basic but adequate standard of living for the retired, thereby preventing poverty in old age. According to OECD[141], New Zealand's income poverty rate for people aged above 65, at 1.5% in mid-2000s, was the lowest among all the OECD countries. New Zealand Superannuation is a non-contributory, flat-rate pension to which almost all New Zealand people over aged 65 or above are eligible after fulfilling the residency requirement. Benefit payments are not means tested and payable regardless of whether recipients have retired. At present, the gross pension rate amounts to NZ$604.8 (HK$3,768[142]) per week or NZ$2,419.2 (HK$15,072) per month for a married couple (where both qualify for the pension), and NZ$400.07 (HK$2,492) per week or NZ$1,600.3 (HK$9,970) per month for single pensioners living alone.

7.3.5 The amount of New Zealand Superannuation payable is adjusted annually on 1 April according to changes in the Consumer Price Index for the previous year. After the adjustment, the after-tax benefit payment payable to a married couple is required by law to be within the range of 65%-72.5% of the average earnings after tax.

7.3.6 Benefits received under New Zealand Superannuation are subject to income tax, which helps reduce the government expenditure on the provision of the universal public pension. The arrangement also serves as an "ex-post" income test, clawing back some of the pension granted to wealthier retirees. In New Zealand, the lowest income bracket is taxed at 10.5% and the highest at 33%. Taxing the pension benefits facilitates the New Zealand government to maintain a financially sound public pension system that costs less than 5% of the Gross Domestic Product ("GDP"), while offering good protection for old age through providing a generous basic pension to eligible citizens. The replacement rate for a public pensioner earning half of the average earnings before retirement reached 77.5% in 2010.

141 See Organization for Economic Co-operation and Development (2011).
142 Based on the average exchange rate of HK$6.23 per New Zealand dollar in 2011.

Spain

7.3.7 The non-contributory Public Pension Scheme serves as the zero pillar of retirement protection that provides a flat-rate payment to the low-income elderly to meet their basic needs. People aged 65 or above, who are not qualified for receiving the contributory pension, are eligible to receive a full non-contributory pension of €4,866.4 (HK$53,141[143]) per year, or a monthly rate of €405.5 (HK$4,428), after fulfilling the income test and residency requirements. In principle, the benefit rate of the non-contributory pension is adjusted annually based on the inflation rate. In practice, the Spanish government has set the annual benefit adjustment above the inflation rate to ensure the adequacy of pension payments.

Taiwan

7.3.8 In 2008, Taiwan implemented the National Pension Programme comprising (a) a non-contributory scheme providing basic pension to the needy elderly aged 65 or above, and (b) a contributory scheme covering non-employees aged above 25 and under 65 who are not eligible for the contributory Labor Insurance Scheme and the mandatory Labor Pension Programme. The non-contributory pension of the National Pension Programme serves as the zero pillar whereby needy elderly are entitled to receive a lifelong monthly payment of NT$3,000 (HK$795[144]), after meeting the means test and residency requirements. The basic pension is financed by government revenue.

143 Based on the average exchange rate of HK$10.92 per euro in 2011.
144 Based on the average exchange rate of HK$0.265 per New Taiwan Dollar in 2011.

Hong Kong

7.3.9 As the zero pillar of retirement protection system, CSSA provides a safety net of last resort for the needy elderly, whereas OAA offers a monthly cash allowance to eligible elders for meeting special needs arising from old age. CSSA recipients aged 60 or above receive monthly standard rates ranging from HK$2,660 to HK$4,810 plus supplements and special grants on a need basis effective from 1 February 2012. In contrast, both Normal OAA and Higher OAA recipients receive a flat-rate benefit of HK$1,090 per month with effect from 1 February 2012. Elders aged between 65 and 69 can apply for the means tested Normal OAA, while those aged 70 or above may apply for Higher OAA without having to make means declarations.

7.3.10 As for the CSSA Scheme, there have been concerns in the society that it cannot effectively protect the needy elderly. In particular, the elderly cannot apply for CSSA on an individual basis if their family member(s) decline to make the statement on non-provision of financial support. In addition, CSSA standard rates are considered insufficient for meeting the living expenses of the recipients.

<u>First pillar</u>

7.3.11 The first pillar is defined as a mandatory publicly-managed earning-related pension plan with the objective of replacing some portion of pre-retirement income.

Australia and New Zealand

7.3.12 As discussed in paragraphs 7.2.2 and 7.2.4 above, both Australia and New Zealand have not established the first pillar retirement scheme.

Spain

7.3.13 Spain has established the earnings-related contributory Public Pension Scheme as a strong first pillar covering employees aged between 16 and 65 and the self-employed aged between 18 and 65. Both employers and employees are required to make contributions to the Scheme with contribution rates varying with schemes. For example, the contribution rate of the General Social Security Scheme is 28.3% of the employees' monthly income, of which employers contribute 23.6% and employees the other 4.7%.[145] Pensioners can receive the pension for life from the age of 65 if they have paid contributions for at least 15 years.

7.3.14 The contributory Public Pension Scheme also puts in place a government-funded pension supplement for which a pensioner can apply to top up his or her pension receivable to the minimum pension set annually by the government. Being a means tested benefit, the pension supplement helps boost the generosity and replacement rates of the Public Pension Scheme. For a public pensioner earning the average earnings or half of the average earnings before retirement, the replacement rate reached as high as 81.2% in 2010. Notwithstanding the high replacement rate, the income poverty rate of the elderly in Spain was 22.8% in the mid-2000s, higher than the OECD's average of 13.5%. According to OECD, the high rate was due to a high proportion of pensioners receiving only the minimum benefits for making contributions for a short period.

Taiwan

7.3.15 In contrast to Australia and New Zealand, Taiwan has established a comprehensive first pillar scheme through the implementation of the National Pension Programme and the tripartite contributory Labor Insurance Scheme with contributions from the government, employees and employers.

[145] The General Social Security Scheme covers private sector employees, professionals and some public sector employees. It is the largest occupational retirement scheme in Spain in terms of the number of contributors and pensioners.

7.3.16 The objective of the National Pension Programme is to provide pubic pension to non-employees (e.g. housewives and the unemployed) aged above 25 and under 65, and not adequately covered by social insurance when they become old, and/or suffer from physical or mental disability. In 2008, the government appropriated NT$37 billion (HK$9.8 billion) as the seed money for establishing the National Pension Fund to kick-start the National Pension Programme. Since then, the funding sources of the Programme have come from the premiums received, government subsidies and investment return of the National Pension Fund. The current premium rate is set at 7% of the national minimum monthly wage and rises by 0.5% every two years thereafter until it reaches the limit of 12%.

7.3.17 Under the National Pension Programme, insurants pay 60% of the premium and the government the remaining 40%. Low-income and severely disabled insurants are not required to pay any insurance premiums, while the government subsidizes 55% to 70% of the premiums paid by the less disadvantaged individuals. Retirees could receive retirement benefits based on the average monthly salary and the number of insurance coverage years.

7.3.18 For the contributory Labor Insurance Scheme, companies with five or more employees aged above 15 and below 60 are compulsorily required to participate in the Scheme. The Scheme provides various kinds of benefits, including old age pension, and disability and death benefits. The premium rate is currently prescribed at a rate of 8.5% of an insurant's monthly salary with annual increases of 0.5% to 10%, followed by biennial increases of 0.5% up to 13%.

7.3.19 Insurance premiums of the Labor Insurance Scheme are paid jointly by the government, employers and employees according to different ratios. When an insurant has a regular employer, 70% of the insurance premium is contributed by the employer, 20% by the insurant and 10% by the government. If the insurant is self-employed, he or she contributes 60% of the insurance premium and the government pays the remaining 40%. In general, an insurant may claim the old age pension benefits if he or she is aged 60 or above and has resigned from work and withdrawn from insurance coverage. Same as the National Pension Programme, the Labor Insurance Scheme calculates the amount of the benefits to be received by the retirees on the basis of average monthly salary and the number of insurance coverage years.

Hong Kong

7.3.20 Among the places studied, Hong Kong is the only one which has not established a public pension scheme. The retirement life of the elderly is supported by the zero pillar via the social security system and the second pillar through the MPF system. However, there are views in the society that these two pillars are inadequate for protecting low-income earners and the economically inactive population such as housewives. As such, the Government has been repeatedly urged to strengthen the retirement system by establishing a universal first pillar retirement protection scheme.

7.3.21 Some Members, non-governmental organizations ("NGOs"), academics and policy think tanks have proposed various retirement protection models to the Government for consideration should it implement the universal retirement protection scheme in Hong Kong. Some of these models propose to establish a single social welfare programme by combining the CSSA and OAA benefits payable to the elderly. There are others proposing the establishment of a new retirement protection scheme featuring one or more of the following:

(a) tripartite contributions from the Government, employers and employees;

(b) a one-off capital injection of between HK$20 billion to HK$50 billion from the Government as the start-up fund for the scheme; and

(c) partially pre-funded or fully-funded financing arrangements to ensure the sustainability of the retirement protection system.[146]

[146] The partially pre-funded arrangement requires the Government to establish a reserve fund to pre-fund the universal retirement protection scheme when the pension expenditures remain relatively low. The accumulated balance of the reserve fund will be progressively drawn down to help finance the rising pension expenditures when the population ages. As for the fully-funded arrangement, the employer and employee contributions are accumulated and invested in pension funds. Pensioners receive the accumulated contributions plus investment returns as benefits upon retirement.

7.3.22 Among the proposed models, the one put forward by the Alliance for Universal Pensions ("Alliance") has been widely discussed in the society. The Alliance is an umbrella organization consisting of over 80 welfare-related NGO members. It proposes a partially pre-funded universal retirement protection scheme, the Universal Retirement Protection Scheme. The scheme is initially financed by a one-off start-up fund of HK$50 billion from the Government and the tax revenue to be received from the increase in the profits tax rates by 1.9 percentage points for companies with annual profit exceeding HK$10 million. Afterwards, tripartite contributions will be made to the scheme by the Government, employers and employees.

7.3.23 Under the Universal Retirement Protection Scheme, the government contribution will come from the recurrent funding for old age CSSA and OAA. Employer and employee contributions are sourced from half of their respective existing mandatory MPF contributions (i.e. 2.5% of an employee's income) subject to a salary cap of HK$30,000 per month. Based on the above funding arrangement, a universal monthly pension of HK$3,000 is payable to all the elderly aged 65 or above.

7.3.24 The Government has expressed doubt about whether the public may support the model proposed by the Alliance, under which half of an individual's monthly contribution to the MPF system will be pooled together and re-distributed to the current generation of elders, regardless of their income, wealth or employment. In addition, the Government is concerned over the sustainability of such a model in the long term amid the ageing population, lower fertility rate and increasing life expectancy.

7.3.25 Another widely discussed universal retirement protection scheme is the one proposed by the Professional Commons.[147] The policy think tank has proposed to set up the Universal Old Age Pension Scheme, which is similar to the Alliance's model in terms of providing a universal monthly old age pension of HK$3,000 to people aged 65 or above, with tripartite contributions from the Government, employers and employees. Under this proposal, the government contributions will come from two sources: (a) a transfer of recurrent funding from old age CSSA and OAA, and (b) a provision of HK$50 billion as a start-up fund for the proposed scheme and an injection of HK$25 billion every five years afterwards. Employer and employee are each required to contribute 2.5% of the employee's income into the scheme subject to the maximum income of HK$50,000 per month, on top of the statutory 5% contribution to the MPF schemes.

7.3.26 According to the Government, the Universal Old Age Pension Scheme will exert a financial burden on employers and employees as both parties are required to make contributions to the scheme on top of their existing MPF contributions. In addition, the Government's financial resources should target at helping those elderly in need, instead of providing a universal pension payment for all elders.

Second and third pillars

7.3.27 The second pillar refers to mandatory occupational pension schemes or private pension plans with close connection between contributions and the amount of benefits upon retirement. In contrast, the third pillar is voluntary private retirement savings, consisting of voluntary employee contributions to occupational/private pension plans or other sources.

[147] During the election for the Chief Executive of Hong Kong Special Administrative Region in 2007, over 100 Election Committee members from various professional sectors joined hands to advocate for a faster pace for democracy. Many of these Election Committee members, together with like-minded professionals, have decided to build on this foundation to establish the Professional Commons after the election. As a membership-based non-profit organization, the Professional Commons aims to improve the quality of public governance and empower the community in the policy making process.

Australia

7.3.28 Australia has established the Superannuation Guarantee scheme as the second pillar of its retirement protection system. Under the Scheme, employers are required to contribute at least 9% of an employee's earnings to a government-registered superannuation fund. Employees can boost their superannuation savings by adding their own contribution on top of the compulsory employer contributions. Such voluntary savings constitutes the third pillar of the retirement system, which is encouraged by the government through providing taxation concessions for voluntary superannuation contributions. In 2010, about 90% of employees in Australia had superannuation contributions paid into a superannuation scheme on their behalf by their employers.

7.3.29 The Superannuation Guarantee scheme allows an employee to achieve a higher standard of living in retirement than would be possible from the Age Pension alone. In 2010, the replacement rate of an employee receiving the Age Pension was 37.9%, compared with 73.3% when the Superannuation Guarantee was included.

New Zealand

7.3.30 New Zealand launched a government-subsidized occupational retirement scheme, KiwiSaver, in 2007 as the second-cum-third pillar of its retirement protection system. In general, New Zealanders aged between 18 and 65 starting a new job are automatically enrolled in KiwiSaver. They can choose to opt out during the second and eighth week of starting a new job.

7.3.31 Employees contribute 2%, 4% or 8% of their gross salary to KiwiSaver, while employers are required by law to contribute 2% of participating employees' gross salary. The New Zealand government has provided a number of financial incentives to boost the uptake of the KiwiSaver scheme, including a "kick-start" bonus of NZ$1,000 (HK$6,230) and the allowance for the withdrawal of the KiwiSaver savings to purchase the first home. Unlike New Zealand Superannuation, KiwiSaver focuses on providing the New Zealand people with the avenue for voluntary savings and lifetime consumption smoothing (i.e. maintaining individual living standards into retirement).

Spain

7.3.32 Spain has not established any mandatory occupational pension plan as the second pillar of its retirement protection system. Meanwhile, voluntary occupational and private pension schemes, the third pillar of retirement protection, are not well developed in Spain due to the generosity of the Public Pension Scheme.

Taiwan

7.3.33 In Taiwan, the mandatory employers' contributory Labor Pension Programme constitutes the second pillar of its retirement protection system. It features a portable individual labour pension account covering employees in every industry, with the exception of civil servants/public sector employees and private school staff members. Under the Labor Pension Programme, employees are entitled to receive the contributions made by their employers into their individual pension account set up under the Labor Pension Fund. Employers are required to contribute not less than 6% of their employees' monthly salary. Employees may opt to contribute up to 6% of their monthly salary on top of the compulsory employer contribution for saving purposes. Such voluntary saving element constitutes the third pillar of the retirement protection system, which is encouraged by the government through granting taxation concessions.

7.3.34 Among the retirement protection schemes covered in this study, Taiwan's Labor Pension Programme is the only scheme which provides a minimum guaranteed rate of return to the scheme members. By law, the rate of return accrued from an employee's pension account should not be less than two-year bank deposit rate. In the event of any deficiency, the government will make up for the shortfall. The guaranteed return helps cushion the pensioners from any fluctuations in the global financial markets.

Hong Kong

7.3.35 The privately-managed MPF system came into place in 2000 as the second pillar to provide retirement protection for the working population. Both employer and employee are each required to contribute 5% of the employee's income to a registered MPF scheme subject to a salary cap of HK$20,000 per month. Employees with a monthly income less than HK$6,500 are exempt from contributing to their own MPF accounts, but their employers are still required to make the 5% contribution. Retirees receive lump sum benefits from the schemes at the age of 65.

7.3.36 There are views in the society that the MPF system may not provide adequate protection for the retirees. The replacement rate for a MPF scheme member earning half of the average earnings before retirement was only 35.4% in 2009. The MPF system is also unable to benefit the current generation of older people, low-income earners and people outside the labour force such as housewives. Furthermore, employers are allowed to offset the long service payments or severance payments by their MPF contributions.

7.3.37 The MPF system has undergone a number of changes in recent years, focusing mainly on improving the operation of the system and protection of participating members. The passage of the *Mandatory Provident Schemes (Amendment) Ordinance 2009*, which is expected to be implemented in 2012, will empower employees to transfer the benefits from scheme to scheme during their current employment, thereby increasing employees' control over their mandatory MPF contributions. This improves on the existing arrangement under which the MPF benefits are only portable from scheme to scheme when employees change job or cease employment with existing employers.

7.3.38 In September 2011, the Management Board of the Mandatory Provident Fund Schemes Authority agreed in principle to the following two proposals for improving the existing withdrawal arrangement of MPF benefits:

(a) allowing members to have greater flexibility in choosing the mode of MPF benefit payment upon retirement; and

(b) adding "terminal illness" as a new ground for early withdrawal of MPF benefits.

7.3.39 The above proposals have been put forward for public consultation that will last until March 2012. According to the Mandatory Provident Fund Schemes Authority, it will review the responses received and fine-tune the proposals in the second quarter of 2012, with a view to submitting recommendations to the Government in the third quarter of 2012.

7.4 Adequacy and sustainability of the retirement protection systems

7.4.1 All the places studied have proposed or introduced measures in recent years to ensure the adequacy and sustainability of its retirement protection system. The measures include raising the age of eligibility for public pension and increasing the contributions to occupational retirement schemes. New Zealand, Spain and Taiwan have gone further to set up a buffer fund for pre-funding the expected surge in public pension cost when the population ages.

Australia

7.4.2 The problem of ageing population is putting pressure on the sustainability of the Age Pension. In response, the government has sought to increase the minimum qualifying age to boost the sustainability of the public pension. It is currently set at 65 for men, but varies between 60 and 65 for women. By 2014, the age of eligibility will be increased to 65 for women, making it the same as for men. It will be increased further to 67 in stages by 2023.

7.4.3 Moreover, the Australian government stated in the 2009-2010 Budget that it would gradually increase the employer contribution rate to Superannuation Guarantee from 9% to 12% between FY 2013-2014 and FY 2019-2020, subject to parliamentary approval. Adopting such a policy change aims at shifting the balance between public and private sectors in pension provision with the working population making more self-provision in retirement protection.

7.4.4 As to its 20-year-old superannuation system, the Australian government introduced a bill in November 2011 to reform the system with the objective of maximizing retirement benefits for its citizens. The reform requires those employees who do not choose a superannuation fund of their own choice to make their superannuation contributions to a lower-cost default superannuation product known as MySuper.

7.4.5 MySuper has a simple diversified investment strategy and limits the type of fees a trustee can charge to administration fee, investment fee, buy and sell spreads, exit fee and switching fee. Fees other than administration and investment will be charged on a cost-recovery basis. The Australian Treasury has estimated that MySuper would result in fee reductions of around 40% for an average member. This, coupled with the proposed increase in the contribution rate to the Superannuation Guarantee from the current 9% to 12% by FY 2019-2020, would raise the superannuation balance of a MySuper member by around AUS$40,000 (HK$324,400) after 37 years in the workforce.

<u>New Zealand</u>

7.4.6 New Zealand Superannuation is funded on a pay-as-you-go basis from government revenue. As a pre-emptive measure, the New Zealand government established a buffer fund, the New Zealand Superannuation Fund, in 2001 to make provision for the expected surge in pension, at a time when demographic conditions are still favourable and the expenditures of public pension remains relatively low. The New Zealand Superannuation Fund operates as an investment fund which receives and invests contributions from the government. So far, the Fund has received a total of NZ$14.9 billion (HK$92.8 billion) from the government for financing the pension cost.

7.4.7 As New Zealand Superannuation is universal and relatively generous, there have been requests for introducing modest changes to the eligibility and entitlement rules of the scheme to improve the sustainability of the public pension. These include a gradual increase in the normal retirement age from 65 to 67, and the introduction of a transitional, means tested benefit for those aged between 65 and 66 who may not be able to support themselves until age 67.

7.4.8 The New Zealand government has increased the employee and employer contribution rates to KiwiSaver, in order to make the pension system more sustainable in the future. From 1 April 2013, the minimum employee contribution and the compulsory matching employer contribution to KiwiSaver will be both increased from the current 2% to 3%.

Spain

7.4.9 The non-contributory Public Pension Scheme is financed by government revenue on a pay-as-you-go basis. For the contributory Public Pension Scheme, it is financed by the employee and employer contributions. Spain established the Social Security Reserve Fund in 2000 to receive and invest the surplus left after the payout of retirement benefits from the contributions accumulated, thereby helping pre-fund the costs of contributory pension payment in the future. However, the problem of an ageing population will impose a heavy fiscal burden on the government for financing the generous public pension. The government spending on pension is forecast to rise from 8.9% of Spain's GDP in 2010 to 15.5% by 2050. As such, there have been concerns on whether the pension system can be sustained in the long term.

7.4.10 The recent economic recession, coupled with the outbreak of the European sovereign debt crisis, has prompted the Spanish government to reform its contributory Public Pension Scheme. The proposed reform measures, if approved by Parliament, will increase the retirement age from 65 to 67 between 2013 and 2027, extend the contributory period required to receive a full pension from 35 to 37 years, and provide incentives to encourage employees continuing to work beyond the retirement age. The government has estimated that the proposed reform can reduce the public pension expenditure by the equivalent of 3.5% of GDP in 2050. Accordingly, the replacement rate for a pensioner earning the average earnings will be reduced from the current level of 81.2% to the target of 73.9%.

Taiwan

7.4.11 Similar to New Zealand and Spain, Taiwan has established a reserve fund to ensure financial sustainability of its National Pension Programme. In 2008, the government appropriated NT$37 billion (HK$9.8 billion) as the seed money for establishing the National Pension Fund.

7.4.12 The Taiwanese government has admitted that it is currently faced with the twin problems of an aging population and declining birth rate. As such, enhancing the financial security in old age for the working population has become an important policy issue. To tackle the problem, it has implemented the following measures to ensure the sustainability of its public pension system:

(a) easing the short-term financial pressure on the contributory Labor Insurance Scheme by allowing the accrued old age pension benefits to be paid as a monthly pension. Previously, pensioners received their old age pension benefits as a lump sum payment upon retirement; and

(b) adopting a gradual and progressive increase in the contribution rates for the National Pension Programme and Labor Insurance Scheme.

Hong Kong

7.4.13 Unlike other places studies, Hong Kong has not established a public pension system. As such, the issue of adequacy and sustainability of the public pension system does not arise in Hong Kong. However, there have been concerns over the adequacy of the social security schemes, being the zero pillar of retirement protection system, on protecting the needy elderly in their retirement life. According to the Hong Kong Council of Social Service, the income poverty rate of the elderly in Hong Kong was 33.4% in 2011. Various universal retirement protection models have been proposed to the Government for consideration. However, the Government has expressed doubt over the sustainability of these models.

7.4.14 According to the Government, it has not ruled out the feasibility of implementing a universal retirement protection scheme and other sustainable options. Indeed, the Government has conducted its own study through commissioning the Central Policy Unit ("CPU") to assess the financial sustainability of Hong Kong's retirement protection scheme against the three-pillar model proposed by the World Bank in 1994. CPU started five related studies in 2004 and obtained some preliminary findings in 2008. The Government has planned to make available all the findings in 2012 when CPU is expected to complete the studies.

7.4.15 As to the occupational pension scheme, the monthly maximum relevant income level for the MPF contributions will be increased from HK$20,000 to HK$25,000 with effect from 1 June 2012. According to the Government, the increase is to encourage the workforce to save more financial resources for meeting their basic retirement needs. However, the MPF system may be inadequate to protect the retirement needs of the working population. For example, the current generation of older people may not be able to accumulate sufficient amount of MPF savings to support their retirement life as the MPF only came into operation on 1 December 2000. High MPF management fees also affect the adequacy of their MPF savings to replace pre-retirement income.

Appendix I

Current economic conditions of Spain

A.I.1 The Spanish economy has been hard hit by the global financial crisis with its GDP down 3% between 2007 and 2010. Over the same period, unemployment rate raised from 8.3% to 20.1%. More importantly, the structural deterioration of fiscal balance[148] has raised the public concerns over the capability of Spain to comply with the budget deficit and debt levels specified in the *Stability and Growth Pact.*[149] In fact, Spain's budget balance went from a surplus of 1.9% of GDP in 2007 to a deficit of 9.2% in 2010. Its public debt as a percentage of GDP, reached 60.1% in 2010, and is forecast to increase to 69.7% by 2012. In this connection, there have been growing concerns that the European sovereign debt crisis might spread beyond the heavily indebted Greece, Ireland and Portugal to Spain, even though Spain's public debt level is lower than that of the three indebted countries.

A.I.2 Against the above background, the Spanish government has recently announced a series of reform measures, including reforming its financial sector and banking system, labour market, business environment and public pension system to restore the country's fiscal sustainability. Fiscal retrenchment measures have also been implemented to reduce the budget deficit to 2.1% of GDP by 2014, so as to comply with the 3% limit set under the *Stability and Growth Pact*. In any event, the credit ratings for Spain's sovereign debt and some of the largest banks in Spain have recently been downgraded by several leading credit rating agencies, for reasons such as a relatively high debt level and uncertain economic outlook.[150]

[148] A number of factors have contributed to the deteriorating fiscal balance, including declining domestic demand, sluggish economic growth, rising unemployment rate, and the surge in the government spending for the ageing population.

[149] The *Stability and Growth Pact* provides that members of the euro zone should ensure that their annual budget deficit as a percentage of GDP does not exceed the 3% limit and their public debt is not more than 60% of the GDP.

[150] In October 2011, three major credit rating agencies downgraded the Spanish long-term rating and issued a negative rating outlook on Spain. Moody's lowered the sovereign rating of Spain from "Aa2" to "A1" whereas Standard & Poor's also lowered the long-term rating of Spain from "AA" to "AA-". Likewise, Fitch Ratings also lowered the long term foreign and local currency Issuer Default Ratings of Spain from "AA+" to "AA-". In January 2012, Fitch Ratings further lowered the rating of Spain from "AA-" to "A".

Appendix II

Key features of retirement protection system in selected places

Five-Pillar Pension Taxonomy								
Pillar	Main criteria			Retirement protection system				
	Characteristics	Participation	Funding	Australia	New Zealand	Spain	Taiwan	Hong Kong
Zero	Basic public pension plan to provide universal or means tested retirement benefits.	Universal entitlement or eligible recipients.	Government revenue.	Yes, through Age Pension.	Yes, through New Zealand Superannuation.	Yes, through non-contributory Public Pension Scheme.	Yes, through non-contributory basic pension of the National Pension Programme.	Yes, through Comprehensive Social Security Assistance and Old Age Allowance.
First	Earnings-related pension scheme managed by the government.	Mandatory.	Contributions from scheme members, possibly supplemented by government funding and investment return of the contributions made to the scheme.	Nil.	Nil.	Yes, through contributory Public Pension Scheme.	Yes, through the contributory pension of the National Pension Programme, and Labor Insurance Scheme.	Nil.
Second	Occupational or private pension schemes.	Mandatory.	Contributions from employers and/or employees, possibly supplemented by government funding, and investment return of the contributions made to the scheme.	Yes, through Superannuation Guarantee.	Yes, through KiwiSaver scheme with auto-enrolment and opt-out mechanism for the scheme members.	Nil.	Yes, through Labor Pension Programme.	Yes, through Mandatory Provident Fund (MPF).

Appendix II (cont'd)

Key features of retirement protection system in selected places

Five-Pillar Pension Taxonomy (cont'd)								
Pillar	Main criteria			Retirement protection system				
	Characteristics	Participation	Funding	Australia	New Zealand	Spain	Taiwan	Hong Kong
Third	Occupational or private pension schemes.	Voluntary.	Voluntary employee contributions to the schemes.	Yes, through voluntary employee contributions to registered superannuation schemes.	Yes, through voluntary employee contributions to KiwiSaver scheme.	Yes, through voluntary employee contributions to occupational and private pension schemes.	Yes, through voluntary employee contributions to Labor Pension Programme.	Yes, through voluntary employee contributions to MPF and/or voluntary occupational pension schemes.
Fourth	Access to informal support (e.g. family support), formal social security programmes (such as health care and housing) and individual assets.	Voluntary.	Financial and non-financial assets.	Yes, particularly through home ownership.	Yes.	Yes.	Yes.	Yes.

Appendix II (cont'd)

Key features of retirement protection system in selected places

	Australia	New Zealand	Spain	Taiwan	Hong Kong
Regulatory framework					
Governing legislation	• The *Social Security Act 1991* and the *Social Security (Administration) Act 1999* govern the entitlement to and administration of the Age Pension. • The *Superannuation Guarantee (Administration) Act 1992*, the *Superannuation Industry (Supervision) Act 1993* and the *Financial Services Reform Act 2002* regulate the operation of superannuation schemes.	• The *New Zealand Superannuation and Retirement Income Act 2001* sets out the legislative framework for the operation of New Zealand Superannuation. • The *KiwiSaver Act 2006* governs the establishment, registration and administration of the KiwiSaver scheme. Meanwhile, the *Financial Markets Authority Act 2011* regulates the issuers of the KiwiSaver scheme.	• The *Constitution* lays the constitutional foundation for the mandatory public pension and private pension. • A number of legislation set out the framework of the pension system, including the *Law on regulation of pension plans and funds*, the *Law on non-contributory pensions of the social security system* and the *Law on consolidation and rationalization of the social security system.*	• The *National Pension Act* provides the legislative framework for the operation of the National Pension Programme. • The *Labor Insurance Act* governs the establishment and operation of the Labor Insurance Scheme. • The *Labor Pension Act* is the main legislation governing the establishment of the Labor Pension Programme.	• The *Mandatory Provident Fund Schemes Ordinance* governs the operation of the MPF system. • The *Occupational Retirement Schemes Ordinance* regulates the voluntary occupational retirement schemes that are exempt from the MPF requirements.

Appendix II (cont'd)

Key features of retirement protection system in selected places

	Australia	New Zealand	Spain	Taiwan	Hong Kong
Regulatory framework (cont'd)					
Responsible authorities	• Centrelink serves as the executive arm of the Department of Human Services to administer the delivery of the Age Pension programme. • The Treasury is responsible for advising the government on retirement protection policies. The Australian Prudential Regulation Authority, the Australian Taxation Office, and the Australian Securities and Investment Commission share the regulation of superannuation schemes.	• The Ministry of Social Development manages the payment of New Zealand Superannuation through its executive arm, Work and Income. It also works with the New Zealand Treasury to advise the government on retirement protection policy. • Inland Revenue and the Financial Markets Authority share the administration of the KiwiSaver scheme.	• The National Institute for the Elderly and Social Services, established under the Ministry of Health, Social Policy and Equality, administers the non-contributory Public Pension Scheme. • The Secretariat of State for Social Security, established under the Ministry of Labour and Immigration, manages the contributory Public Pension Scheme.	• The Bureau of Labor Insurance, established under the Council of Labor Affairs, administers the National Pension Programme, the Labor Insurance Scheme and the Labor Pension Programme. • The Labor Pension Fund Supervisory Committee, established under the Council of Labor Affairs, is in charge of investing both the National Pension Fund and the Labor Pension Fund. • The Labor Insurance Supervisory Commission is entrusted with supervision of the Labor Insurance Scheme and the settlement of insurance disputes.	• The Social Welfare Department is the executive arm of the Labour and Welfare Bureau for administering Comprehensive Social Security Assistance and Old Age Allowance programmes. • The Mandatory Provident Fund Schemes Authority regulates the operation of the MPF schemes. • The Financial Services and the Treasury Bureau formulates policies and introduce legislative proposals for the MPF system, as well as overseeing the operation of the Mandatory Provident Fund Schemes Authority.

Appendix II (cont'd)

Key features of retirement protection system in selected places

	Australia	New Zealand	Spain	Taiwan	Hong Kong
Key features of public pension system					
Scheme(s)	• The Age Pension serves as a means tested non-contributory pension to provide a basic income support to those elderly with no or modest private income/assets.	• New Zealand Superannuation serves as a universal government-funded pension to provide a basic but adequate social protection for the elderly.	• The means tested non-contributory Public Pension Scheme provides pension benefits to low-income elderly for meeting their basic needs, whereas the earnings-related contributory Public Pension Scheme covers the retirement protection for working population.	• The National Pension Programme features: (a) a non-contributory scheme providing basic pension to the needy elderly; and (b) a contributory scheme covering non-employees aged above 25 and under 65. • The tripartite contributory Labor Insurance Scheme provides retirement protection for the working population.	• There is no public pension scheme. Instead, two social welfare programmes (i.e. Comprehensive Social Security Assistance and Old Age Allowance) have been put in place to help the needy elderly.

Appendix II (cont'd)

Key features of retirement protection system in selected places

	Australia	New Zealand	Spain	Taiwan	Hong Kong
Key features of public pension system (cont'd)					
Coverage	• Available to men aged 65 or above, but the minimum qualifying age varies for women aged between 60 and 65 (depending on their date of birth). • About 80% of Australian retirees are receiving the Age Pension.	• Available to eligible New Zealand residents aged 65 or above. • 94% of eligible applicants received New Zealand Superannuation in 2010.	• The non-contributory Public Pension Scheme covers the elderly aged 65 or above who are ineligible for the contributory Public Pension Scheme. • The contributory Public Pension Scheme, covering both employees aged 16-65 and the self-employed aged 18-65, consists of: (a) the General Social Security Scheme for public/private sector employees and professionals; and (b) five Special Social Security Schemes for the self-employed and workers in selected occupations (e.g. seamen and coal miners).	• The National Pension Programme comprises two components: (a) the non-contributory pension scheme covering needy elderly aged 65 or above; and (b) the contributory pension scheme, with 3.78 million members at end-2011, covering those non-employees who are aged above 25 and under 65, and not eligible for the Labor Insurance Scheme and Labor Pension Programme. • The Labor Insurance Scheme, with 9.4 million members at end-2010, is compulsory for companies with five or more employees aged above 15 and below 60.	• Not applicable.

Appendix II (cont'd)

Key features of retirement protection system in selected places

	Australia	New Zealand	Spain	Taiwan	Hong Kong
Key features of public pension system (cont'd)					
Eligibility requirement	• Residency and means test requirements.	• Only residency requirement.	• Residency and means test requirement.	• Residency and means test requirement.	• Not applicable.
Residency requirement	• Yes, applicants must satisfy the minimum 10-year residency requirement.	• Yes, applicants must have lived in New Zealand for at least 10 years since turning the age of 20.	• Yes, applicants for the non-contributory Public Pension Scheme must have lived in Spain for at least 10 years since turning the age of 16.	• Yes, individual receiving the basic non-contributory pension under the National Pension Programme must have lived in Taiwan for more than 183 days per year for the last three years.	
Means test requirement	• Yes, income and assets tests required. • Reduced pension will be offered if the recipient's biweekly income or total net assets exceeds the threshold set by the government.	• No income or assets test required.	• Yes, income test required under the non-contributory Public Pension Scheme. • Reduced pension will be offered to an eligible recipient if his or her annual income exceeds the threshold set by the government.	• Yes, income and assets tests required.	

Appendix II (cont'd)

Key features of retirement protection system in selected places

	Australia	New Zealand	Spain	Taiwan	Hong Kong
Key features of public pension system (cont'd)					
Contributions/ premiums payable	• Not applicable.	• Not applicable.	• The contributory Public Pension Scheme is financed by the employee and employer contributions. • Pensioners must contribute for at least 15 years before receiving the pension for life.	• The premium rate for the contributory scheme of the National Pension Programme is set at 7% of the national monthly minimum wage, and rises by 0.5% every two years, with the limit of 12%. Insurants pay 60% of the premium and the government the remaining 40%. • The premium rate of the Labor Insurance Scheme is prescribed at 8.5% of an insurant's monthly salary, with annual increases of 0.5% to 10% and followed by biennial increases of 0.5% up to 13%. • The Labor Insurance Scheme is financed through tripartite contribution, i.e. employer contributing 70% of the insurance premium, employee 20%, and the government 10% for an insurant with a regular employer.	• Not applicable.

Appendix II (cont'd)

Key features of retirement protection system in selected places

	Australia	New Zealand	Spain	Taiwan	Hong Kong
Key features of public pension system (cont'd)					
Benefit rates	• Maximum monthly payment: (a) AUS$1,511 (HK$12,254) for a single pensioner; and (b) AUS$1,139 (HK$9,237) for each member of a couple.	• New Zealand Superannuation is an individual (not family) entitlement. • Gross monthly pension rate amounts to NZ$2,419 (HK$15,072) for a married couple (where both qualify for the pension).	• Monthly payment for non-contributory Public Pension amounts to €406 (HK$4,428). • Monthly benefits of contributory Public Pension is set at 50% of the average of the 180 monthly earnings immediately before retirement age if the contributory period is 15 years, up to a maximum of 100% for 35 years of contribution. • A means tested pension supplement is provided to a recipient of the contributory Public Pension to ensure him or her receiving at least the minimum pension set by the government annually.	• Eligible elderly are entitled to receive a basic pension of NT$3,000 (HK$795) under the non-contributory scheme of the National Pension Programme. • The retirement benefits received under the contributory pension scheme of the National Pension Programme and the Labor Insurance Scheme depend on the average monthly salary and the number of insurance coverage years.	• Not applicable.

Appendix II (cont'd)

Key features of retirement protection system in selected places

	Australia	New Zealand	Spain	Taiwan	Hong Kong
Key features of public pension system (cont'd)					
Taxation of the public pension	• Yes, benefits received under the Age Pension are regarded as taxable income. • Beneficiaries are exempt from paying any income tax if (a) the Age Pension is their only source of income, or (b) their taxable income (including pension and non-pension income) does not exceed the threshold set by the Australian Taxation Office.	• Yes, pension received under New Zealand Superannuation are liable to income tax. • Taxing the pension benefits helps reduce the public pension cost and serves as "ex-post" income test to claw back some of the pension granted to wealthier retirees.	• Yes, pension received under the non-contributory Public Pension Scheme are taxable income. • Yes, pension benefits received under the contributory Public Pension Scheme are taxable income, but the contributions to the Scheme are tax deductible for both employers and employees.	• Yes, pension benefits received under the National Pension Programme and the Labor Insurance Programme are subject to income tax, but premiums paid for the these two programmes are tax deductible.	• Not applicable.
Adjustment of non-contributory pension	• Greater of the movement in Consumer Price Index and the Pensioner and Beneficiary Living Cost Index.	• Benefits are adjusted annually in line with the inflation rate. After the adjustment, the after-tax benefit payable to a couple must be within the range of between 65% and 72.5% of the average earnings after tax.	• Adjustment of non-contributory pension benefits is generally based on the inflation rate.	• Information not available.	

Appendix II (cont'd)

Key features of retirement protection system in selected places

	Australia	New Zealand	Spain	Taiwan	Hong Kong
Key features of public pension system (cont'd)					
Funding sources	• Funded by government revenue on a pay-as-you-go basis.	• Funded by government revenue on a pay-as-you-go basis.	• The non-contributory Public Pension Scheme is funded by government revenue. • The contributory Public Pension Scheme is financed by employer and employee contributions. • The pension supplement under the contributory Public Pension Scheme is largely funded by government revenue.	• The National Pension Programme is financed by the premiums received, government subsidies and the investment return of the National Pension Fund. The Fund was established in 2008 with a government funding of NT$37 billion (HK$9.8 billion) as the seed money to kick-start the National Pension Programme. • The Labor Insurance Programme is financed by insurance premiums paid by the government, employers and employees.	• Not applicable.
Adequacy of public pension payment (i.e. the replacement rate for a pensioner earning half of the average earnings before retirement)	• 37.9%.	• 77.5%.	• 81.2%.	• Information not available.	
Income poverty rate of the elderly (i.e. percentage of people aged above 65 with income less than 50% of median household disposable income)	• 26.9%	• 1.5%	• 22.8%	• Official income poverty rate not available.	
Sustainability of the system (public pension expenditure as a percentage of Gross Domestic Product)	• 2010: 3.6%. • 2050: 4.9% (forecast).	• 2010: 4.7%. • 2050: 8.0% (forecast).	• 2010: 8.9%. • 2050: 15.5% (forecast).	• Information not available.	

Appendix II (cont'd)

Key features of retirement protection system in selected places

	Australia	New Zealand	Spain	Taiwan	Hong Kong
Key features of occupational pension system					
Scheme	• The Superannuation Guarantee scheme, a mandatory retirement savings scheme, allows individuals to save for higher retirement income.	• KiwiSaver, a government-subsidized occupational pension, encourages New Zealanders to save for their retirement.	• There is no mandatory occupational pension scheme. Voluntary occupational pension schemes are offered by some employers to their employees.	• The Labor Pension Programme, featuring mandatory employer contributions and individual portable pension accounts, enhances the retirement protection of the working population.	• The privately-managed MPF schemes provide non-redistributive, lump sum benefits to the working population upon retirement.
Coverage	• Available to full-time/part-time employees and fixed-term workers.	• Available to all New Zealanders who are under the age of eligibility for New Zealand Superannuation (currently at age 65).		• Available to employees in every industry with the exception of civil servants/public sector employees and private school staff members.	• Available to employees and the self-employed unless exempted.
Eligibility requirements	• Employees aged 18-69 and earn at least AUS$450 (HK$3,650) a month are entitled to the scheme.	• Permanent new employees aged 18-64 must be automatically enrolled in the scheme. They can opt out during the 2^{nd} and 8^{th} week of starting a new job.		• No specific restrictions.	• Both regular/causal employees and the self-employed aged 18-65 are required to join the schemes.

Appendix II (cont'd)

Key features of retirement protection system in selected places

	Australia	New Zealand	Spain	Taiwan	Hong Kong
Key features of occupational pension system (cont'd)					
Contributions	• Mandatory employer contribution of not less than 9% of an employee's earnings. • Employees can make voluntary contributions on top of the employer contributions.	• Only required if the employee opts into the KiwiSaver scheme. • Employees can choose a contribution rate of 2%, 4% or 8% of their gross salary. They are entitled to a compulsory matching employer contribution capped at 2% of their gross salary.	• Not applicable.	• Mandatory employer contribution of not less than 6% of an employee's monthly salary, with a minimum amount of NT$1,500 (HK$398) and a maximum limit of NT$150,000 (HK$39,750). Employees may opt to make voluntary contribution up to 6% of their salary.	• Mandatory employer and employee contributions, each at 5% of the employee's income, with the contribution capped at a salary ceiling of HK$20,000. • Employees with a monthly income less than HK$6,500 are exempt from contribution, while their employers are still required to make the 5% contribution.
Government subsidy	• The government matches employee's contribution dollar per dollar up to a maximum of AUS$1,000 (HK$8,110).	• The government offers a number of financial incentives to boost the uptake of the KiwiSaver scheme, including: (a) a NZ$1,000 (HK$6,230) government contribution to each new KiwiSaver account; (b) a member tax credit up to a maximum of NZ$521 (HK$3,249) per annum; (c) withdrawal of KiwiSaver savings to buy first home; and (d) a first-home deposit subsidy of NZ$1,000 (HK$6,230) per year up to an individual maximum of NZ$5,000 (HK$31,150).		• The government has not provided any direct subsidy to the Labor Pension Programme. Instead, it guarantees a minimum rate of return for an employee's pension account, which is not less than two-year bank deposit rate. Any shortfall between the two will be made up by the government.	• The government does not bear any recurrent cost of the MPF system. It may inject funds into the system for specific purposes. For example, low-income earners received a one-off government injection of HK$6,000 into their individual MPF accounts in 2009.

Appendix II (cont'd)

Key features of retirement protection system in selected places

	Australia	New Zealand	Spain	Taiwan	Hong Kong
Key features of occupational pension system (cont'd)					
Management of contributions	• Employees can choose the superannuation fund to receive their employer contributions. • If employees do not make a choice, their superannuation contributions will be paid into the funds chosen by their employers.	• Inland Revenue collects employer and employee contributions and passes them to the KiwiSaver scheme providers. • KiwiSaver scheme providers offer a variety of investment plans from which employees can choose for investing their savings.	• Not applicable.	• The Bureau of Labor Insurance is responsible for running the daily operation of the Labor Pension Scheme, while the Labor Pension Fund Supervisory Committee is tasked with investing the contributions made to the scheme.	• Contributions collected from employers and employees are credited into members' individual accounts under the MPF schemes administered by trustees. • Employees can choose their own investment portfolio out of the constituent funds provided by the MPF scheme trustees chosen by their employers.
Withdrawal of retirement benefits	• Eligible to withdraw the superannuation benefits at the age of 55. • Early withdrawal is possible only under limited circumstances such as severe financial hardship, leaving Australia permanently and specific medical conditions.	• Eligible to withdraw all the retirement benefits as a lump sum at the age of 65. • Early withdrawal is possible in the event of financial hardship, first-home withdrawal, permanent emigration, serious illness and the death of the KiwiSaver member.		• Lump sum payment is available to employees reaching the age of 60 with less than 15 years of contribution. • Monthly payment is available to employees reaching the age of 60 with at least 15 years of contribution.	• Eligible to withdraw the accrued benefits as a lump sum at the age of 65. • Early withdrawal is possible under circumstances such as early retirement at the age of 60, permanent departure from Hong Kong, total incapacity or death.
Taxation of the occupational pension	• Employee and employer contributions to the scheme are tax deductible, and benefits received upon retirement are tax free.	• Employee and employer contributions are liable to tax, but benefits withdrawn from KiwiSaver are tax free.		• Employee and employer contributions to the scheme are tax deductible, but benefits received upon retirement are subject to tax.	• Employee and employer contributions to the scheme are tax deductible, and benefits received upon retirement are tax free.

Appendix II (cont'd)

Key features of retirement protection system in selected places

	Australia	New Zealand	Spain	Taiwan	Hong Kong
Measures implemented/proposed to enhance the adequacy and sustainability of the pension system					
Implemented measures	• The government has announced to increase the minimum qualifying age for the Age Pension from the current 65 to 67 by 2023.	• The New Zealand Superannuation Fund was established in 2001 to receive and invest the government contributions in order to pre-fund the future costs of New Zealand Superannuation.	• The Social Security Reserve Fund was established in 2000 to receive and invest the surplus left after the payout of retirement benefits from the contributions accumulated, thereby helping pre-fund the future costs of contributory pension payment. • The government has recently implemented new legislation to tighten the eligibility requirements of the Public Pension Scheme and adopted measures to encourage employment and foster economic development.	• Measures implemented include: (a) paying the accrued old age pension benefits provided under the contributory Labor Insurance Scheme as a monthly pension, instead of a lump sum payment upon retirement; and (b) adopting a gradual and progressive increase in the contribution rates for the National Pension Programme and Labour Insurance Scheme.	• Not applicable.

Appendix II (cont'd)

Key features of retirement protection system in selected places

	Australia	New Zealand	Spain	Taiwan	Hong Kong
Measures implemented/proposed to enhance the adequacy and sustainability of the pension system (cont'd)					
Proposed measures	• Subject to the approval by Parliament, the employer contribution rate to Superannuation Guarantee will be increased from 9% to 12% between FY2013-2014 and FY2019-2020. • A bill was introduced by the government in November 2011 to reform the superannuation system through the launch of a lower-cost default superannuation product known as MySuper.	• There have been requests for the government to introduce modest changes to the eligibility and entitlement rules of New Zealand Superannuation, such as a gradual increase in the retirement age from 65 to 67. • From 1 April 2013, the minimum employee contribution and the compulsory matching employer contribution to KiwiSaver will be both increased from 2% to 3%.	• The government has proposed to reform its contributory Public Pension Scheme, through measures such as increasing the retirement age from 65 to 67 and extending the contributory period required to receive a full pension from 35 to 37 years.	• Information not available.	• Not applicable.

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