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Panel on Welfare Services

**Updated background brief prepared by the Legislative Council
Secretariat for the meeting on 21 May 2013**

Retirement protection in Hong Kong

Purpose

This paper summarizes the major concerns raised on the social security assistance and retirement protection for the needy elderly at meetings of the Council and its committees.

Background

2. According to the 2011 Population Census released by the Census and Statistics Department ("CSD"), the proportion of the population aged 65 and above had increased from 11% in 2001 to 13% in 2011. The corresponding number of people aged 65 and above increased from 747 052 in 2001 to 941 312 in 2011. The ageing trend of Hong Kong population is expected to be more apparent in the years ahead. According to the projections made by CSD, the proportion of people aged 65 and above is forecast to rise from 13% in 2011 to 30% in 2041, accounting for one out of every three Hong Kong people.

3. According to the Administration, Hong Kong has adopted the three-pillar model for retirement protection advocated by the World Bank, viz. the Mandatory Provident Funds ("MPF") Scheme, the non-contributory social security system (including the Comprehensive Social Security Assistance ("CSSA") Scheme, the Social Security Allowance Scheme, Old Age Allowance and Disability Allowance), and voluntary private savings.

4. The subject of retirement protection has been discussed by the Subcommittee on Retirement Protection ("SCRP") of the Panel on Welfare Services ("the Panel") of the Fourth Legislative Council ("LegCo"). The Subcommittee has also been appointed by the Panel of the current (Fifth) LegCo to follow up with the Administration on the matter. The Subcommittee is currently on the waiting list for activation. Issues relating to retirement protection were also raised at meetings of the Council and its committees.

Members' deliberations and concerns

Social security system

5. The Panel, SCRCP and the Subcommittee on Poverty ("the Subcommittee") formed under the House Committee in the current LegCo were concerned that some needy elders were ineligible for applying for CSSA simply because of the requirement to apply for CSSA on a household basis. Under this requirement, elders could only apply for CSSA on their own if their children signed a statement ("bad son statement") stating that they would not provide financial support for their parents even though they lived together. At its meeting on 22 January 2013, the Subcommittee passed a motion requesting the Government to, among other things, expeditiously scrap the requirement of "bad son statement" under the CSSA Scheme.

6. The Administration explained that elderly CSSA applicants' declaration on whether they were supported financially by their children would facilitate the assessment of their eligibility for CSSA and the amount of CSSA they could receive. If children of elderly applicants refused to declare non-provision of financial support, these applicants could apply for CSSA on their own provided that they made a declaration in this regard.

Introduction of a universal retirement protection scheme

7. Members of SCRCP expressed concern about the efficacy of the three-pillar model in protecting the retirement life of elders in view of the inadequacies of the existing social security system and the MPF system. They called on the Administration to make reference to the five-pillar model put forward by the World Bank in 2005 and introduce a universal retirement protection scheme in Hong Kong.

8. The Administration advised that the community had not yet reached a consensus on making fundamental changes to the existing retirement protection system. The Administration had taken initiatives to improve the livelihood of elders by optimizing the existing system, such as introducing the Guangdong Scheme to provide OAA for eligible Hong Kong elders living in Guangdong. In addition, the Social Security and Retirement Protection Task Force ("the Task Force") under the Commission on Poverty ("CoP") would study in-depth issues related to the social security and retirement protection systems in Hong Kong, including ways to further strengthen the existing systems.

9. Pointing out that more than 80% of the elderly aged 70 or above were receiving assistance or allowance, members of the Subcommittee called on the Administration to formulate policies with a view to providing diversified retirement services for the elderly.

10. The Administration reiterated that it would enhance the three pillars of retirement protection and the Task Force would study the issues in depth and in an open, pragmatic and prudent manner. It would consider all views objectively and work towards a consensus in the community on how retirement protection should be taken forward.

11. At its meeting on 22 January 2013, the Subcommittee passed a motion requesting the Government to, among other things, conduct an overhaul of the system of providing care for the elderly and provide retirement protection for all people in Hong Kong.

CPU's studies on retirement protection

12. SCRP noted that CPU had looked into the subject of retirement protection, and completed five related studies between 2007 and 2010. A summary of the five studies is in **Appendix I**. According to the Administration, the findings of these studies indicated that the three pillars under the current retirement protection model in Hong Kong were complementary to one another, and would continue to be so in future. CPU would refine its relevant studies having regard to the latest socio-economic developments.

13. Members were of the view that the Administration should make public the findings of CPU's study and consult the public on its way forward on retirement protection for the ageing population in Hong Kong. At its meeting on 18 December 2010, the Panel passed a motion urging the Administration to establish an inter-departmental task force to follow up the

subject of implementing universal retirement protection for all people in Hong Kong.

14. According to the Administration, CPU was refining its study on the sustainability of the three-pillar model for retirement protection in Hong Kong and making a new round of projections on the situation of retirees in 30 years' time having regard to the latest developments. These included the impact of the financial tsunami on household consumption and savings patterns, relaxation of the permissible absence from Hong Kong for OAA recipients as well as the proposed Health Protection Scheme. In the course of refining the study, CPU would take account of the latest opinion in the community on retirement protection for the elderly and tap the views of academics, professionals, think tanks and interested parties as appropriate through its established channels. CPU was expected to submit the updated findings to the Government in 2012. As the CPU study was ongoing and the relevant bureaux would be consulted in due course, the Administration saw no need to establish an inter-departmental task force on the subject for the time being.

15. Members did not consider it necessary for CPU to refine its studies on retirement protection in the light of the socio-economic changes as economic fluctuations were not something uncommon. The unduly long time taken for the CPU study was unacceptable. In their view, the Administration had made use of the belated CPU study as an excuse for delaying the implementation of a universal retirement protection scheme.

16. In the light of the shortcomings of the three-pillar model for retirement protection and the ageing population, members took a strong view that there was an imminent need for the Administration to draw up a concrete plan for providing retirement protection to all people in Hong Kong. Given that the proposal for implementing universal retirement protection had been discussed at length in the community and Members belonging to different political groups had expressed support for the proposal, the Administration should kick start the study on the various proposed options without further delay.

17. The Administration stressed that it did not rule out the feasibility of studying the proposal for implementing universal retirement protection and was open-minded on any viable and sustainable options. As the CPU study was ongoing, it would seriously consider the findings and projections of the study and other pertinent factors such as how to ensure the sustainable development of the social security system, in deciding the future course of action.

18. At its meeting on 8 May 2012, SCRCP passed a motion condemning CPU for refusal to make available any findings of the studies on the subject of retirement protection to facilitate public discussions.

Mandatory Provident Fund Scheme

19. At its meeting on 2 November 2011, the Council passed a motion on comprehensively reforming MPF Scheme to urge the authorities to conduct a comprehensive review of the MPF Scheme and examine the feasibility and impact of the measures put forward in the motion, which included lowering MPF fees and charges, partial withdrawal of accrued benefits, increasing the allowance for MPF contributions and stepping up enforcement against default contribution.

20. A written question was raised, at the special Finance Committee meetings in April 2013 which examined the draft Estimates of Expenditure 2013-2014, on the methods and measures to reduce MPF fees and enhance the MPF system as well as the timetable for implementing these measures. In reply, the Administration said that the Mandatory Provident Funds Authority ("MPFA") and the Administration were pursuing a basket of short, medium and long-term measures to achieve substantial reduction in MPF fees. On short-term measures, MPFA was pressing ahead with those measures suggested in the Consultancy Study on MPF Trustees' Administration Costs announced in November 2012 which could be implemented within the existing legislative framework to reduce administration costs. These included promoting electronic platforms, encouraging employees to consolidate their accounts, and encouraging trustees to consolidate MPF schemes/funds that were smaller in scale or less cost-efficient. Regarding medium-term measures, the Administration and MPFA were considering feasible options to enable MPFA to better perform its functions, which included specifying regulatory requirements for seeking MPFA's approval for MPF funds. The Administration aimed to introduce the proposed legislative amendments into LegCo by July 2014. As regards long-term measures, the Administration was discussing with MPFA the rationalization of fund choices and introduction of a cap on MPF fees in case of market failure, with a view to preparing a proposal for public consultation within 2013. MPFA also sought to complete mapping out the implementation of full portability before 2016.

21. According to the Administration, the measures did not include the introduction of official or not-for-profit-making public trustee. The Administration and MPFA expected that there would be more significant reduction in MPF fees in the foreseeable future. In addition, MPFA was

following up on the implementation details of the two proposals on "explicitly allowing scheme members to choose to withdraw their MPF benefits in a lump sum or in stages" and "allowing early withdrawal where a scheme member is certified to suffer from a terminal illness". This included discussing with trustees specific arrangements for implementing the proposals, and articulating the proposed legislative amendments. The Administration aimed to introduce the proposed legislative amendments into LegCo by July 2014.

Latest development

22. When the House Committee was briefed on the work of CoP at its special meeting on 22 March 2013, Members noted that the Task Force had agreed to invite Professor CHOW Wing-sun to conduct a study to review the three-pillar retirement protection system. According to the Administration, the study would assess the combined retirement protection effect of the current three-pillar system, analyse the different retirement protection options put forth by the community, and recommend improvement measures having regard to the inadequacies of the existing three-pillar system and the future development options proposed by the community. The study would be conducted on the basis of the evaluation criteria¹ in the "Old Age Income Support in the 21st Century: An International Perspective on Pension Systems and Reform" published by the World Bank in 2005. The Administration advised that the study was expected to be completed within 12 months. The Administration would conduct wide public discussions in following up the findings of the study.

Relevant papers

23. A list of the relevant papers on the LegCo website is in the **Appendix II**.

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¹ One of the evaluation criteria is that living protection for elderly should comprise a number of pillars (three or five pillars), instead of relying on one single kind of protection. Other evaluation criteria are adequacy (whether the reformed retirement protection system can offer adequate retirement protection for the entire population), affordability (whether it is affordable by individuals and the society), sustainability (whether it is financially sound and can be maintained over a foreseeable horizon under a broad set of reasonable assumptions) and robustness (whether it can withstand major shocks, including those coming from economic, demographic and political volatility).

**A summary of the five studies on the retirement protection system in
Hong Kong conducted by the Central Policy Unit**

Study title	Brief information
1. Household survey on financial disposition and retirement planning of current and future generations of retired persons	To understand the financial position and retirement plans of the current and future generations of retired persons.
2. A study on sustainability of three pillars of retirement protection in Hong Kong	To project the financial position and the financial sustainability of the three pillars from 2006 to 2036 through macro and micro-simulations.
3. A study on the intergenerational transfers between elderly parents and adult children	<p>To study intergenerational mutual support in Hong Kong families, and factors affecting such support.</p> <p>Some of the findings were presented at the Conference on “Strengthening Hong Kong's Families: Obligation and Care Across the Generations” held on 9 June 2010. The presentation materials are available on the following website: http://www.cpu.gov.hk/tc/documents/conference/20100609%20Chou%20Kee-lee.pdf</p>
4. The meaning and practice of filial piety in Hong Kong	<p>To examine the meaning of filial piety, as well as the views on and practice of filial piety of the two generations (adult children and their parents).</p> <p>The study report points out that the young generation nowadays is more flexible in the practice of filial piety. While the provision of financial support for parents is still regarded as an important conduct of filial piety, it carries more a symbolic meaning than material support. The two</p>

	<p>generations place heavier emphasis on love and respect.</p> <p>The study report is available on the following website: http://www.cpu.gov.hk/tc/documents/new/press/Filial%20Piety.pdf</p> <p>Some of the findings were presented at the Conference on “Strengthening Hong Kong's Families: Obligation and Care Across the Generations” held on 9 June 2010. The presentation materials are available on the following website: http://www.cpu.gov.hk/tc/documents/conference/20100609%20Ting%20Kwok-fai.pdf</p>
<p>5. Private saving in Hong Kong: implications for retirement protection</p>	<p>To understand the savings situation of employees (including individual and families).</p> <p>Some of the findings were presented at the Conference on “Strengthening Hong Kong's Families: Obligation and Care Across the Generations” held on 9 June 2010. The presentation materials are available on the following website: http://www.cpu.gov.hk/tc/documents/conference/20100609%20Chou%20Kee-lee.pdf</p>

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Appendix II

Relevant papers on retirement protection in Hong Kong

Committee	Date of meeting	Paper
Panel on Welfare Services	13 June 2005 (Item IV)	Agenda Minutes
Legislative Council	26 April 2006	Official Record of Proceedings (pages 160 – 239)
Panel on Welfare Services	8 June 2006 (Item I)	Agenda Minutes
Panel on Welfare Services	20 October 2010 (Item I)	Agenda Minutes
Panel on Welfare Services	8 November 2010 (Item IV)	Agenda Minutes
Finance Committee	17 December 2010 (Item 3)	Agenda
Panel on Welfare Services	18 December 2010 (Item I)	Agenda
Legislative Council	2 November 2011	Official Record of Proceedings (pages 251 – 319) Progress Report
Panel on Welfare Services	10 January 2011 (Item VI)	Agenda Minutes
House Committee	21 January 2011 (Item VII)	Agenda Minutes

Committee	Date of meeting	Paper
Panel on Welfare Services	22 October 2012 (Item I)	Agenda
Panel on Welfare Services	25 October 2012 (Item I)	Agenda Minutes
Panel on Welfare Services	29 October 2012 (Item I)	Agenda
Panel on Welfare Services	12 November 2012 (Item IV)	Agenda Minutes
Subcommittee on Poverty	11 December 2012 (Item III)	Agenda
Subcommittee on Poverty	22 January 2013 (Item I)	Agenda Minutes
House Committee	22 March 2013 (Item I)	Agenda
Finance Committee	8 April 2013	Administration's reply to members' written questions in examining the Estimates of Expenditure 2013-2014 Pages 67 – 68

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