

For discussion on  
29 August 2014

**Legislative Council Panel on Welfare Services  
Subcommittee on Retirement Protection**

**Research Report on Future Development of  
Retirement Protection in Hong Kong**

**Purpose**

Appointed by the Commission on Poverty (CoP), the consultancy team with Professor Nelson Chow as the chief consultant, has completed the study on the future development of retirement protection in Hong Kong. The research report was submitted to the CoP for discussion at its meeting on 20 August 2014 and was made public in full on the same day.

**Background**

Poverty Alleviation and Care for the Elderly as Work Focus

2. To solve the problem of elderly poverty, the Chief Executive (CE) stated in the Election Manifesto that “studying how to introduce short, medium and long-term measures to.....improve the present social security and retirement protection systems.” To deliver his pledge in the Election Manifesto, the CE has made poverty alleviation, care for the elderly and support for the disadvantaged as one of the policy priorities of this term of Government after taking office in July 2012. A number of measures have been introduced to improve the social security and retirement protection systems in the past two years. These include launching the Old Age Living Allowance (OALA) (benefiting about 420 000 elderly persons so far), the provision of Old Age Allowance (OAA) under the Guangdong Scheme (benefiting about 17 000 elderly persons so far), extending the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities to more modes of public transport (at present the number of daily average passenger trips made by the elderly persons is about 620 000), and doubling the elderly health care voucher amount to \$2,000, etc.

3. The CE has tasked the CoP to study retirement protection-related issues when the Commission was re-instated in December 2012. This study was subsequently included in the terms of reference of the Social Security and Retirement Protection Task Force (Task Force) set up under the CoP.

### **Commencement of the Study on Retirement Protection**

4. In the 2013 Policy Address, the CE pointed out that social security and retirement protection were recurrent themes that often appeared prominently in the discussion of the poverty issue. On retirement protection, the CE stated that he “suggest in my Manifesto that we should study the impact of an ageing population on our public finance, and plan ahead to deal with the issue in a timely manner. The Government will reinforce and enhance the existing three pillars, namely, private savings and family support, the social security system, and the Mandatory Provident Fund (MPF) System. The OALA, to be launched in April 2013, will be an additional tier of financial assistance between the Comprehensive Social Security Assistance (CSSA) Scheme and the OAA. Some have proposed that the Government should review the relationship between the three types of financial assistance for the elderly, namely the CSSA, OALA and OAA. We are also aware of views in favour of the introduction of universal retirement protection. But there are concerns that universal retirement protection would impose a very heavy burden on the public coffers over time, and would be impractical without tax hikes. The other option based on tripartite contribution from employers, employees and the Government is equally controversial, involving issues such as affordability and sustainability. The Task Force will study retirement protection in depth in an open, pragmatic and prudent manner. It will consider all views objectively and work towards a consensus in the community on how we should take forward retirement protection in Hong Kong.”

5. In March 2013, the Task Force commissioned the consultancy team from the University of Hong Kong led by Professor Nelson Chow to conduct a study on the future development of retirement protection in Hong Kong. In December last year, the consultancy team attended a meeting of the Legislative Council Panel on Welfare Services to listen to Members’ views on retirement protection.

6. The CE also mentioned the study by the consultancy team in the 2014 Policy Address. He stated that “The Government will adopt an open and pragmatic attitude in considering the way forward for retirement protection.”

### **Latest Development**

7. The draft research report was submitted on 30 June 2014 and was finalised in early August. The report mainly covers –

- (a) literature review of practices elsewhere;
- (b) views collected through meetings, focus groups and public fora;
- (c) quantitative assessment on five selected proposals from outside bodies<sup>1</sup>; and
- (d) the consultancy team’s recommendation on “Demo-grants”.

8. At the meeting of the CoP on 20 August 2014, the research report was presented for the first time to the CoP for discussion. At the meeting, Professor Nelson Chow presented the findings of the study to the Commission. The CoP expressed its heartfelt gratitude for the strenuous efforts made by Professor Nelson Chow and his team in the past year, adding that the study had provided a useful reference for future discussion on retirement protection. The CoP noted that the study was conducted by the team independently and no directional guidance or concrete proposals had been suggested by the Government. To enable the general public to have a better understanding of the subject and to maintain the transparency of the CoP’s work, the CoP agreed to release the report in full and the entire report has been uploaded to its website ([www.povertyrelief.gov.hk](http://www.povertyrelief.gov.hk)) for reference by the public.

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<sup>1</sup> The team originally selected six proposals from outside bodies for quantitative assessment, including three universal non-means-tested proposals with a uniform payment level from the Hong Kong Federation of Trade Unions, Alliance for Universal Pension and Professional Commons; two proposals on enhancing the existing means-tested multi-tiered social security system from the Democratic Alliance for the Betterment and Progress of Hong Kong and New People’s Party; and the annuity proposal from Dr Law Chi-kwong. However, as the annuity proposal involves large amount of hypothetical data, the team has not adopted it for quantitative assessment.

9. After receiving a briefing from the team, the CoP and the team exchanged views on the report. Some CoP Members pointed out that the community should consider seriously whether the fundamental direction to improve retirement protection should be to introduce a new universal non-means-tested scheme with a uniform payment level or to build on the existing system and target limited public resources to help the elderly most in need through means tests. Other Members, particularly those who are associated with one of the universal non-means-tested schemes studied in the report, commented that they would study the consultancy team's assessment of their respective proposals and consider whether the team's recommended "Demo-grants" was a practical alternative.

10. CoP Members also expressed concerns over the serious and far-reaching impact of improving retirement protection on public finances and the key question of who should foot the bill. Some Members were concerned that increasing public expenditure to improve retirement protection benefits would worsen the Government's fiscal position. In the long run, it would further advance the anticipated structural deficit problem previously projected by the Working Group on Long-Term Fiscal Planning as a result of an ageing population. Some Members also highlighted the controversies involved in raising tax or requiring additional contributions by employers and employees to finance new proposals. They considered that additional contributions by employers and employees would be tantamount to a form of taxation. As for "transferring" the contributions from the MPF Scheme as a financing option, Members expressed concern that this would undermine the function of the MPF Scheme as a pillar of retirement protection and was not viable. In addition, Members noted that all the universal non-means-tested proposals covered in the report would unlikely be financially sustainable in the longer run.

11. Given that retirement protection is a highly complex subject which would affect all Hong Kong people and have far-reaching impact on the fiscal sustainability and socio-economic developments in Hong Kong, CoP Members agreed that it had to be taken forward prudently and that more time would be needed to fully understand and examine the report, and discuss relevant issues in depth. The CoP will convene further meetings as soon as possible to further discuss in detail the report compiled by the consultancy team and related issues.

## **Conclusion**

12. Members of the Subcommittee are invited to note the content of this paper.

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Financial Services and the Treasury Bureau  
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