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Special House Committee meeting on 8 January 2016

Background brief on retirement protection

Purpose

This paper provides background information on retirement protection in Hong Kong. It also summarizes the major views and concerns raised by Members during discussions on issues relating to retirement protection in the Fifth Legislative Council ("LegCo").

Background

2. According to the updated set of population projections 2015-2064 released by the Census and Statistics Department ("C&SD") in September 2015, population ageing is expected to continue. Excluding foreign domestic helpers, the proportion of elderly persons aged 65 and over is projected to rise markedly from 15% in 2014 to 36% in 2064. Population ageing is expected to be most rapid in the coming 20 years with the proportion of over 65 years old reaching 23% in 2024 and 30% in 2034. This is mainly attributable to the post-war baby boomers entering old age. Towards the end of the projection period, the proportion of the elderly will stabilize as the baby boomers gradually pass away.

3. According to the Administration, Hong Kong has all along been adopting a three-pillar model for retirement protection: the non-contributory social security system (comprising the Comprehensive Social Security Assistance ("CSSA") Scheme, the Old Age Allowance ("OAA"), Old Age Living Allowance ("OALA") and Disability Allowance), the Mandatory Provident Fund ("MPF") system and voluntary private savings. This model was adopted in the 1990s after

lengthy discussion by various sectors of the community and is in line with the World Bank's multi-pillar model¹.

Study on retirement protection in Hong Kong

4. The Central Policy Unit 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**. Overall speaking, the findings of these studies indicate that the three pillars under the retirement protection model in Hong Kong are complementary to one another, and would continue to be so in future.

5. A working group led by the Permanent Secretary for Financial Services and the Treasury (Treasury) was formed in June 2013 to explore ways to make more comprehensive planning for public finances to cope with the ageing population and other long-term commitments of the Government².

6. The Chief Executive stated in the 2014 Policy Address that the Commission on Poverty ("CoP") had commissioned a consultancy team led by Professor Nelson CHOW to assess various retirement protection schemes on the basis of the multi-pillar approach advocated by the World Bank and make recommendations on the way forward. Specifically, the study would make an in-depth analysis in the following four aspects –

- (a) the relationship among the elderly CSSA Scheme, OALA, and OAA, as well as their collective retirement protection functions;
- (b) on the basis of the relationship among the existing social security for the elderly, MPF and voluntary private savings (i.e. the three pillars), examine the retirement protection functions they perform collectively;

¹ The World Bank issued a report on "Old Age Income Support in the 21st Century: An International Perspective on Pension Systems and Reform" ("the Report") in 2005, and proposed to add two pillars to the three-pillar model, i.e. (a) a non-contributory basic pension plan financed by the Government; and (b) non-financial support including access to informal support (e.g. family support), other formal social security programmes (e.g. healthcare and/or housing), and other individual financial and non-financial assets (e.g. home ownership and reverse mortgages where available). The World Bank reiterated in the Report that a multi-pillar retirement protection model can provide the elderly with the needed retirement protection more effectively than a single pillar model. The Report also pointed out that any recommendations to improve the retirement protection scheme should take into consideration the actual situation of the place.

² The working group aims to assess, under existing policies, the long-term public expenditure needs and changes in government revenue, and to propose feasible measures with reference to overseas experience. The Executive Summary of the report of the working group can be found at <http://www.legco.gov.hk/yr13-14/english/fc/fc/papers/fcfc-47-e.pdf>.

- (c) analyse and make projections on the major proposals on the development of retirement protection put forth by community groups, the political sector and academics, having regard to factors such as demographic changes in Hong Kong in the next 30 years, economic growth forecasts and the Government's fiscal strengths, and so on; and
- (d) use the analysis and projections in (c) above to propose feasible options to further improve social security and retirement protection for the elderly.

7. The consultancy team commenced the study on retirement protection in May 2013, and set out its findings and recommendations in its study report entitled "Future Development of Retirement Protection in Hong Kong" ("the Research Report") which was submitted to CoP on 20 August 2014 and made public on the same day³. The consultancy team recommended the Government to, among others, consider to set up demo-grants at \$3,000 per month for all Hong Kong permanent residents aged 65 or above. Having regard to views expressed by various sectors on the Research Report since its publication and considering that various sectors of the community have diverse views on retirement protection, CoP has decided to conduct a six-month public consultation exercise on retirement protection in December 2015.

Members' deliberations and concerns

8. Concerns about retirement protection and related issues were raised by Members at meetings of the Council, Finance Committee and various committees. Specifically, the Panel on Welfare Services has appointed the Subcommittee on Retirement Protection ("the RP Subcommittee") in the Fifth LegCo to study and follow up on issues relating to the retirement life of all people and relevant retirement protection proposals. Members' major views and concerns are summarized in the ensuing paragraphs.

Efficacy of the existing retirement protection system

9. Most Members were of the view that there were deficiencies of the existing three-pillar retirement protection model in ensuring that the elderly could lead a dignified and financially-secured life in their twilight years.

³ The Executive Summary of the report can be found at http://www.legco.gov.hk/yr13-14/english/panels/ws/ws_rp/papers/ws_rp0829-sum20140820-e.pdf.

Non-contributory social security system

10. Some Members pointed out that under the requirement of applying for CSSA on a household basis, the elderly CSSA applicants had to provide information on the financial position of their family members for the purpose of assessing their financial needs. If they wished to apply for CSSA on their own, they must submit a declaration on non-provision of financial support by their family members. It would be difficult for the elderly concerned to make CSSA applications if their family members were unwilling to make such declaration. Moreover, the labelling effect of the CSSA Scheme had also deterred many vulnerable elderly from seeking appropriate financial assistance.

11. According to the Administration, the CSSA Scheme was designed to provide financial support to needy families for meeting basic needs. Applications were made on a household basis on the ground that family members should render assistance and support for each other. Where an elderly applicant wished to apply for CSSA on his/her own, the Social Welfare Department would consider exercising its discretion on a case-by-case basis. Members were also advised that while there were prescribed limits for the income and assets of the elderly applicants for OALA, contributions from family members were excluded in the calculation of their income. According to the Administration, more than 420 000 eligible elderly were receiving a monthly OALA of \$2,390. As stated in the 2014 Policy Address, a review on the implementation of OALA including the asset limits would be conducted in 2014. In addition, the Government would introduce a Low-income Working Family Allowance to curb inter-generational poverty by encouraging self-reliance through employment.

MPF system

12. Some Members expressed concern that the current generation of elderly, homemakers and unemployed persons were not covered by the employment-based MPF system. These Members also criticized the offsetting arrangement under the MPF Scheme, i.e. the arrangement of offsetting severance payments and long service payments against MPF accrued benefits derived from employers' contributions, as the arrangement, in their view, rendered the MPF system unable to provide employees, in particular low-income earners, with retirement protection. These Members strongly called on the Administration to draw up a legislative timetable with a view to abolishing the offsetting arrangement within the current-term Government.

13. According to the Administration, it was aware of the different concerns of the community over the offsetting arrangement which was a complex issue and had wide read-across implications. The labour sector actively requested abolishing the offsetting arrangement such that the entire sum of MPF contributions from employers and the accrued benefits could be preserved to strengthen the retirement protection for employees. However, many business chambers, employers' organizations and enterprises opposed strongly such abolition. They considered that the abolition would increase their expenditure. This would impose substantial financial burden on enterprises, especially small and medium-sized ones, and would deal a blow to their operations, or even affect employees' terms of employment and job opportunities.

14. The Administration explained that the offsetting arrangement was a complicated issue which could be dealt with in different ways gradually. Given that different approaches would have varying impact on employers and employees, the Administration would need to continue to listen to the views of various sectors of the community through the existing platforms. It would consider and examine the issue in a holistic and careful manner before deciding on the way forward. To enable an in-depth discussion on the subject, the Panel on Manpower and the Panel on Financial Affairs has formed a joint subcommittee to follow up on the review of the offsetting arrangement and make recommendations to the Administration. The joint subcommittee will commence work in January 2016.

15. Most Members also expressed concern that the management fees of the MPF schemes were generally on the high side, which would further erode the retirement benefits of employees. The Administration advised that the MPF system had enabled more than 2.5 million employees to save for their retirement. As of May 2015, the annualized internal rate of return (net of fees) of the MPF system since its inception in 2000 was 5.1% and the annualized change of the Consumer Price Index for the same period was 1.7%, reflecting the role of the MPF system in providing retirement protection for scheme members. Moreover, the Mandatory Provident Funds Schemes Authority ("MPFA") and the Administration had since the inception of the MPF system been pursuing various measures and planned initiatives to lower MPF fees and increase employees' control on investment made. Notably, following the implementation of the Employee Choice Arrangement in November 2012, which provided employees with greater autonomy in choosing MPF schemes, a number of funds had reduced their management fees. Currently, there were more than 170 low-fee funds available in the

market. To facilitate greater scope for fee reduction, the Government and MPFA aimed to introduce a "core fund" as the default fund, which would be subject to fee control and based on long-term investment strategy that was consistent with retirement saving objectives, in each MPF scheme by 2016. In addition, MPFA had strengthened publicity and public education efforts on MPF investments.

16. Members may wish to note that the Mandatory Provident Fund Schemes (Amendment) Bill 2015, which aims to introduce a highly standardized and fee-controlled Default Investment Strategy (previously called the "core fund") into the MPF system, was introduced into LegCo on 25 November 2015. The Bill is being scrutinized by a Bills Committee.

Private savings

17. As a result of the decreasing family size of the baby boomers, who were born in 1950s and 1960s with no, one or two children, and the declining willingness of the current cohort of younger generation to support elderly parents, most Members expressed reservation about the reliability of family as a major source of financial support for their elderly parents. Some Members also pointed out that the low-income earners in young age could hardly accumulate adequate savings for their twilight age.

18. According to the Administration, it had, over the years, been providing various community support, healthcare and residential care services for the elderly at concessionary rates. In the view of the Administration, all these measures subsidized the daily living and personal care expenses of the elderly to a certain extent. They provided diversified support for the elderly, which was in addition to, and as important as, financial support.

Future development of retirement protection

19. Having regard to the challenges of an ageing population and the fact that the elderly poverty rate stood at about 30%, some Members took a strong view that the Administration should introduce legislation on universal retirement protection within the term of the Fifth LegCo. In these Members' view, as the elderly population was projected to rise markedly in the following decades, the coming few years would be last golden opportunity for the implementation of a universal retirement protection scheme. If the Government did not introduce a universal

retirement protection scheme expeditiously, the public expenditure on old age CSSA, OAA and OALA would, on the other hand, surge in light of the ageing population. More importantly, retirement protection was a fundamental right of individual elderly in recognition of their past contribution and hence should not be studied from the poverty alleviation perspective. As the implementation of universal retirement protection had been discussed at length by the community at large, these Members urged the Administration to make reference to the five-pillar retirement protection model put forward by the World Bank in 2005 and introduce a universal retirement protection scheme in Hong Kong without further delay. It was proposed that all elderly aged 65 and above were entitled to receive a non-means-tested monthly payment, say, in the region of \$3,000 to \$4,000, with tripartite contributions from the Government, employers and employees.

20. Some other Members, however, were opposed to the implementation of a universal non-means-tested retirement protection scheme, having regard to the imposition of a very heavy burden on the public coffers and the younger generation over time. While agreeing to provide retirement protection to the needy elderly, these Members expressed concern about the funding source, the community acceptance of making extra contribution by employers and employees as well as the sustainability of a universal non-means-tested retirement protection scheme. It was stressed that the limited public resources should be targeted at the elderly in need. It was further suggested that each pillar of the existing multi-pillar retirement protection regime in Hong Kong, in particular the MPF system, should be examined and strengthened with a view to providing more appropriate assistance for the needy elderly.

21. The Administration advised that it was very concerned about the subject of retirement protection. It had taken initiatives to improve the livelihood of the elderly by optimizing the existing social security system, such as introducing the Guangdong Scheme to provide OAA for eligible Hong Kong elderly living in Guangdong. Currently, about 80% of elderly already received retirement protection under the existing social security system funded by public coffers, which included about 220 000 elderly receiving monthly OAA, more than 420 000 elderly receiving monthly OALA, about 150 000 elderly being on the CSSA Scheme and over 30 000 elderly receiving monthly Disability Allowance. To further demonstrate the Government's determination and commitment in improving protection for needy citizens after retirement, \$50 billion was earmarked to provide for future needs of retirement protection.

22. The Administration further advised that having regard to the sustainability of the universal option of retirement protection and its impact on public finance, as well as the guiding principle that allocation of public resources should be directed to help the under-privileged, it had reservation about the universal option. Notwithstanding this, it was open-minded on the way forward for retirement protection in Hong Kong. As retirement protection would affect all Hong Kong people and given its far-reaching implications on public finance, the local economy and society, the Government must examine the issue most carefully and objectively. Given the complexity of the issue, it was imperative to identify the policy direction in respect of whether the existing retirement protection system should be enhanced, a universal retirement protection scheme should be implemented or public resources should be directed to help the elderly most in need for the sake of poverty alleviation. The Administration stressed that for any proposal to be implemented, it must be financially sustainable in the long term, affordable to all parties concerned, acceptable to the stakeholders and community as well as operationally viable.

Public consultation and implementation timetable for retirement protection in Hong Kong

23. Members noted that after deciding to conduct a six-month public consultation exercise on retirement protection, CoP also agreed to make use of C&SD's latest 50-year projection figures released in September 2015 and the projection method adopted in the Research Report to update the financial assessments of the relevant proposals⁴ covered in the Research Report, the consultancy team's "Demo-grant" proposal and another annuity scheme as well as to explore the feasibility of extending the projection period, in order to enable in-depth discussions based on concrete data.

24. Noting from C&SD's latest population projections that the overall labour force participation rate (i.e. the proportion of the labour force in the population aged 15 and over) was projected to decrease from 59.3% in 2014 to 48.6% in 2064, some Members questioned the need for extending the projection period from 30 years to 50 years and the assumptions adopted by C&SD in making such projections. These Members expressed concern that the Administration made use of the projected decline in labour force as an excuse of not pursuing a universal retirement protection scheme.

⁴ The consultancy team has originally selected six proposals, but the team has not adopted one of the proposals for quantitative assessment because it involves large amount of hypothetical data.

25. The Administration explained that the population projections were regularly updated at two to three years' interval to take account of information on the latest developments of the population, including the most up-to-date information on fertility, mortality and movement patterns of the population which had emerged since the last set of population projections was produced as well as the prevailing government policies and external factors. In preparing the updated set of projections, C&SD noted a population decline in 20 to 30 years' time and made reference to the practice of other advanced economies in extending the projection period from 30 years to 50 years to better discern the trends and profile of the future population. C&SD also updated the labour force projections with the availability of the latest population projections. The decrease in the size of the labour force as compared to the last projection exercise was mainly due to a smaller projected inflow of One-Way Permit holders based on actual figures of inflow in recent years.

26. Some Members envisaged that the public consultation exercise on retirement protection would re-open the discussion on the fundamental question of whether a universal retirement protection scheme should be implemented. They criticized that the Administration had taken a step backward by conducting a consultation exercise on the development direction of retirement protection after the consultancy team, which was commissioned by the Government, had released its report on future development of retirement protection in Hong Kong and recommended a "Demo-grant" proposal. These Members considered that the public consultation exercise should focus on the financial arrangements for a retirement protection scheme to be implemented in Hong Kong. With regard to the timetable of public consultation exercise, they cast doubt as to whether a policy on retirement protection could be duly worked out for implementation within the current-term Government given the tenure of the Fifth LegCo and the current-term Government would expire in 2016 and 2017 respectively. Some Members also urged the Administration to compress the preparatory work for and shorten the duration of the public consultation exercise.

27. At the RP Subcommittee meeting on 26 October 2015, all members present unanimously passed a motion urging the Government to, among others, put forward a specific proposal and the implementation timetable for retirement protection immediately. Members of the RP Subcommittee also noted that over 180 academics had recently put forward a joint revised universal non-means-tested retirement protection proposal to CoP for consideration. Most Subcommittee members urged the Administration to include the latest joint proposal from these academics in the consultation document for the public consultation. The Administration, however, had not agreed to do so.

28. The Administration explained to the RP Subcommittee that it acknowledged the need to promote in-depth, informed, objective and rational discussion of various sectors of the community on retirement protection during the public consultation period which would run from December 2015 till June 2016. The consultation document would provide a simple and easy-to-understand framework to compare one single universal proposal against another non-universal proposal, in terms of the overall and extra financial commitments required during the projection period, as well as the additional subsidy amount received by various groups of elderly. CoP also agreed to use the "Demo-grant" proposal from the consultancy team as the basis for analysing universal retirement protection proposals. As to non-universal proposals, a concrete proposal would be formulated for comparison after making reference to the two non-universal proposals covered in the Research Report. Apart from setting out the two proposals on retirement protection, CoP's consultation document will also provide a simple and clear analytical framework for comparing the two proposals in various aspects such as their rationales, contents, implications and implementation in order to assist the public in making a choice. It was expected that the development direction of retirement protection in Hong Kong could be identified within the current term of Government.

Relevant motions moved and questions raised in Council

29. In the Fifth LegCo, Members have moved motions without legislative effect and raised questions on retirement protection and related issues at various Council meetings. The relevant motions and questions are set out in **Appendices II** and **III** respectively.

Latest development

30. On 22 December 2015, CoP launched a six-month public engagement exercise with the release of a consultation document on retirement protection. The Chief Secretary for Administration (also Chairperson of CoP) and the relevant public officers will attend the special House Committee ("HC") meeting scheduled for 8 January 2016 to answer Members' questions on this subject.

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 ¹	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.</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>

¹ The report was completed in 2008 and the findings had not taken into account the latest development including the introduction of Statutory Minimum Wage in May 2011 and the implementation of Old Age Living Allowance in April 2013, etc.

Study title	Brief information
	<p>generations place heavier emphasis on love and respect.</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.</p>
5. Private saving in Hong Kong: implications for retirement protection	<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.</p>

Source: LC Paper Nos. CB(2)1281/12-13(01) and CB(2)2350/10-11(01) provided by the Administration.

Relevant motions moved by Members

In the Fifth Legislative Council (up to 16 December 2015), Members have moved in Council the following motions without legislative effect concerning Hong Kong's retirement protection and related issues -

- (1) Motion moved by Dr Hon Fernando CHEUNG on "Universal retirement protection system" at the Council meeting of 24 October 2012

The motion was negatived. The wording of the motion and the official record of proceedings are respectively available at:

<http://www.legco.gov.hk/yr12-13/english/counmtg/motion/cm20121024m2.htm>

<http://www.legco.gov.hk/yr12-13/english/counmtg/hansard/cm1024-translate-e.pdf> (pages 302 to 362)

<http://www.legco.gov.hk/yr12-13/english/counmtg/hansard/cm1025-translate-e.pdf> (pages 6 to 95)

- (2) Motion moved by Hon TANG Ka-piu on "Comprehensively reviewing the Mandatory Provident Fund Scheme" at the Council meeting of 9 January 2013

The motion was negatived. The wording of the motion and the official record of proceedings are respectively available at:

<http://www.legco.gov.hk/yr12-13/english/counmtg/motion/cm20130109m3.htm>

<http://www.legco.gov.hk/yr12-13/english/counmtg/hansard/cm0110-translate-e.pdf>

(pages 6 to 145)

Relevant questions raised by Members

In the Fifth Legislative Council (up to 16 December 2015), Members have raised in Council the following questions concerning Hong Kong's retirement protection and related issues -

- (1) Oral question raised by Hon LEUNG Kwok-hung on retirement protection scheme at the Council meeting of 14 November 2012

Hon LEUNG Kwok-hung enquired, among other things, how the Government would build consensus in the community regarding the implementation of a universal retirement protection system. The question and the reply are available at:

<http://www.legco.gov.hk/yr12-13/english/counmtg/hansard/cm1114-translate-e-e.pdf>

(pages 9 to 21)

- (2) Written question raised by Hon James TIEN on retirement protection at the Council meeting of 11 February 2015

Hon James TIEN enquired about the Government's plans for improving the retirement protection in Hong Kong. The question and the reply are available at:

<http://www.legco.gov.hk/yr14-15/english/counmtg/hansard/cm20150211-translate-e.pdf#nameddest=wrq11>

(pages 72 to 74)

- (3) Oral question raised by Hon LEUNG Yiu-chung on retirement protection at the Council meeting of 18 November 2015

Hon LEUNG Yiu-chung enquired, among other things, whether the Government had assessed if the establishment of a universal retirement protection scheme would be more effective in resolving the problem of elderly poverty than the implementation of means-tested poverty alleviation measures. The question and the reply are available at:

<http://www.legco.gov.hk/yr15-16/english/counmtg/hansard/cm20151118-translate-e.pdf#nameddest=orq>

(pages 48 to 60)