

Subcommittee on Retirement Protection  
Meeting on Saturday, 29 April 2017, from 9:00 am to 11:00 am  
in Conference Room 1 of the Legislative Council Complex

**Financial Arrangements for Universal Retirement Protection.**

Chairman, Ladies and Gentlemen:

Based on the belief that retirement protection is an essential ingredient of a modern civilized society, and considering Hong Kong has the highest Gini coefficient among developed countries but the government has accumulated a huge fiscal reserve. We believe it is the right time for the Government to establish a universal retirement protection system.

By inputting Hong Kong data to a mathematical model which links up periodic savings during people's working life, level of interest rates, average length of time in retirement, and the amount of retirement benefit payments, the calculation results suggest that the building of a defined benefit and partially-funded universal pension system by adding a publicly managed mandatory contributory pension plans and enlarging the coverage and benefits of the Old Age Allowance (OAA) to all Hong Kong elderly aged above 65. This system is viable and sustainable for the Government while providing adequate pension benefits to the Hong Kong people.

The success of a defined benefit and partially funded universal pension system is critically dependent on the size of the pension fund raised at its inception and accumulated thereafter. In Tables 1 and 2, we can notice that the total pension contribution is less than the guaranteed minimum pension payments in any year during the observed period, and thus it is difficult to say there is a partially funded element in the system. In order to establish a fund for the public pension pillar of the system, we suggest Hong Kong government to transfer some existing funds including the MPF, Civil Service Pension Reserve Fund, and the Land Fund in whole or in part to the designated retirement protection fund. Furthermore, to ensure a stable and reasonable investment return to the pension fund, we suggest Hong Kong government to transfer its equity holding of HK\$124.7 billion (The Treasury, 2016; Schedule 1) to the account of the retirement protection fund, and invest the rest of the fund with the Exchange Fund.

We want to reiterate that, a good retirement protection system should be a simple system with low transactions costs, it should not be mingled with social security which is designed to help the neediest members of the population, and the implementation of pension system reform should be gradual instead of radical.

Table 1 Public Pension Spending projection with 5% contribution rate

Year	2016	2024	2034	2044	2057	2064
GDP (HK\$m)	2402506	2402506	2402506	2402506	2402506	2402506
Population aged 65 or above (million)	1.173	1.6833	2.2846	2.5257	2.6102	2.5823
Pension benefit of the mandatory contributory plans	3648	3648	3648	3648	3648	3648
Population aged 65 or above who made pension contribution (million)	0.72	1.03	1.40	1.55	1.60	1.58
Total pension generated by the contributors (HK\$m)	2623.09	3764.24	5108.88	5648.03	5836.99	5774.6
Guaranteed minimum Pension=HK5000	5000	5000	5000	5000	5000	5000
Total Pension Benefits (HK\$m)	5865	8416.5	11423	12628.5	13051	12911.5

Public Pension Spending (HK\$m)	3241.91	4652.26	6314.12	6980.47	7214.01	7136.9
Public Pension Spending to GDP (%)	0.13	0.19	0.26	0.29	0.3	0.3

Assuming a typical young people in Hong Kong who are 24 years old and a fresh university graduate; he starts his employment on 1 January 2016 with a monthly salaries HK15,000 (which was the median monthly employment earnings at the first quarter of 2016), he will retire on 31 December 2057 at 65 years old, and his life expectancy is 80 years. All monetary values are assumed to be deflated by the CCPI.

I hope the Government will consider the idea.

Che-cheong Poon  
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