

For discussion
on 12 March 2018

Legislative Council Panel on Welfare Services
The Poverty Line

Purpose

This paper briefs on the analytical framework of the poverty line, its effectiveness and application, as well as the analysis of the poverty situation in 2016.

Background

2. The Commission on Poverty (CoP) was reinstated in December 2012 to deliberate on various policies and measures in support of the Government's poverty alleviation work for achieving the objectives of preventing and alleviating poverty. One of the priority tasks of the CoP was to set a well-recognised poverty line for Hong Kong.

3. In September 2013, the first-term CoP announced the first official poverty line. Poverty statistics for Hong Kong have since been updated annually under the poverty line framework for ongoing monitoring of the poverty situation in the territory. Since the official poverty line was announced for the first time in 2013, the Government has published five annual analyses of the poverty situation, with statistics covering the situation between 2009 and 2016. All annual Hong Kong Poverty Situation Reports have been uploaded to the CoP's website (www.povertyrelief.gov.hk) for the public's information.

Analytical framework of the poverty line

4. The setting of the poverty line is to provide an objective quantitative analysis for the Government to monitor and understand the poverty situation, formulate poverty

alleviation policies and assess policy effectiveness in an ongoing manner. It also provides a common basis for the discussion of poverty situation in the community. In formulating the poverty line framework, the CoP considered five guiding principles, i.e. ready measurability, international comparability, regular data availability, cost-effectiveness, and amenability to compilation and interpretation.

5. In accordance with the above objectives and guiding principles, the first-term CoP, after various rounds of discussion, reached a broad consensus on the proposal of setting a poverty line for Hong Kong based on the concept of “relative poverty”. With monthly household income before policy intervention (i.e. before taxation and social welfare transfers) as the basis for measurement, the poverty line is set at 50% of the median household income by household size. Households with income below the poverty line are classified as poor while the household members concerned are counted as poor persons.

6. The CoP adopts the concept of “relative poverty”, which identifies persons whose living standards are below those of the general public as poor. This is consistent with the poverty alleviation principle of enabling different strata of society to share the fruits of economic development. The concept is simple and easy-to-understand. Its adoption is consistent with the international practice of most developed economies, such as the Organisation for Economic Co-operation and Development (OECD) and the European Union, and the statistics so compiled are more readily and broadly comparable internationally. In addition, it has been a common practice, both internationally and locally, to set the poverty line at 50% of the median monthly household income. For instance, the OECD sets its main poverty line at 50% of the median household income. In Hong Kong, some non-governmental organisations (such as the Hong Kong Council of Social Service and Oxfam) have also adopted 50% of the median household income as the poverty line for years.

7. With reference to international practice, there are several major poverty indicators under the poverty line framework, namely (1) poverty incidence (including the number of poor households and the size of the poor population) and (2) poverty rate for measuring the extent of poverty; and (3) poverty gap (including average and

total poverty gaps) for measuring the depth of poverty.

8. The main analytical framework of the poverty line mainly measures recurrent cash policies, such as the Comprehensive Social Security Assistance (CSSA), Old Age Living Allowance (OALA), Old Age Allowance and Disability Allowance. In addition to the main analytical framework of the poverty line, supplementary analyses are prepared to assess the effectiveness of non-recurrent cash benefits (including one-off measures such as provision of rates waiver and additional social security payments) and means-tested in-kind benefits (including mainly public rental housing). For universal in-kind benefits without means tests, such as public medical services and education, the CoP's decision was that these measures should not be included in the poverty line framework as all citizens in the general public are able to enjoy them.

9. Just as any framework of data analysis, the poverty line has its limitations, which include the following:

- (1) Since the poverty line takes household income as the sole indicator for measuring poverty without considering assets and liabilities, some "asset-rich, income-poor" persons (such as retired elderly persons who have a considerable amount of savings or own properties) may be classified as poor, and the poverty situation will be overstated as a result;
- (2) The poverty line is not a poverty alleviation line. It should not be taken directly as the eligibility criteria of any poverty alleviation initiatives, nor should it be linked directly to the means-tested mechanisms of any assistance schemes; and
- (3) Based on the concept of "relative poverty", the poverty line is set at a percentage of the pre-intervention median household income. Under normal circumstances, statistically there are always persons in poverty before policy intervention.

10. To make up for the limitations of the analytical framework of the poverty line and facilitate multi-dimensional understanding and analysis of the local poverty

situation, the Government and the CoP have been soliciting views from different sectors of the community for introducing some other analyses under the analytical framework of the poverty line. For example:

- (1) A thematic analysis was included in the Hong Kong Poverty Situation Report 2013 for the first time regarding the poverty situation of elderly persons by further analysing the data acquired from the General Household Survey conducted by the Census and Statistics Department;
- (2) Poverty statistics by age of household head and an analysis of the impact of population ageing and other structural factors on the poverty statistics were introduced for the first time in the Hong Kong Poverty Situation Report 2015; and
- (3) An information paper entitled “Supplementary Poverty Line Analysis: Expenditure Patterns of Poor Households in 2015” was prepared based on the statistics acquired from the Household Expenditure Survey conducted once every five years to provide an additional analysis of the expenditures of poor households for supplementary reference.

Effectiveness and application of the poverty line

11. One of the major functions of the poverty line is to assess policy effectiveness. In the poverty line analysis, household income is classified into two types, i.e. “pre-intervention” household income¹ and “post-intervention” household income². By analysing the changes in poverty indicators before and after policy intervention, the effectiveness of existing poverty alleviation measures can be quantified, evaluated and compared, thereby facilitating policy review. Through the analytical framework of

¹ It refers to the original household income without taxation or any other policy intervention and includes only a household’s own employment earnings and other non-social-transfer cash income.

² It refers to the derived household income obtained by deducting taxes and counting all recurrent cash benefits (such as CSSA, Old Age Allowance, OALA, Disability Allowance, Work Incentive Transport Subsidy and Low-income Working Family Allowance (LIFA)) on top of the “pre-intervention” household income. This income reflects more genuinely the amount of monthly disposable cash available to a household.

the poverty line, the effect of policy initiatives under deliberation on various poverty indicators can be simulated, which serves to provide objective policy guidance.

12. Statistics for poverty analysis are mainly sourced from the General Household Survey of the Census and Statistics Department. The data collected can be further analysed by a set of socio-economic characteristics, such as gender, age, employment condition and district. A focused analysis of the situations of various groups, such as elderly, single-parent and unemployed households, can also be conducted so that groups in need of focused support can be identified and policy initiatives be explored and formulated accordingly to provide targeted support. For example, the poverty line analysis has revealed that low-income working families not receiving CSSA, mostly with children at school, are at higher risk of poverty and deserve priority attention. In view of that, the Government devised and launched the LIFA (to be renamed as the “Working Family Allowance” on 1 April 2018) Scheme in 2016 to encourage members of these families to stay in active employment and ease intergenerational poverty. Furthermore, the poverty line analysis also has a particular focus on the poverty situation of the elderly, and has helped the Government further identify the poor elderly persons with financial needs, so that additional support can be provided to them through, for instance, the enhancement for OALA.

13. The analytical framework of the poverty line has also been applied in other related studies, which in turn helped the Government monitor the situation of some specific groups not covered by the annual poverty situation report. For instance, the Government has, on the basis of the poverty line framework, compiled analyses on the poverty situation of persons with disabilities and ethnic minorities³ to help better understand the forms of poverty of these specific groups and formulate targeted support measures for them.

14. Moreover, the poverty line has gained wide acceptance in the community in recent years. Academics, think tanks and welfare organisations have used the data from the poverty line analysis in their studies, some of which have shed light on how

³ The Government has published the “Hong Kong Poverty Situation Report on Disability 2013”, “Hong Kong Poverty Situation Report on Ethnic Minorities 2014” and “Hong Kong Poverty Situation Report on Ethnic Minorities 2016”.

the CoP may improve the analytical framework of the poverty line. Therefore, the poverty line not only provides a common basis for deliberation on poverty issues in Hong Kong, but also helps the Government and the CoP strengthen exchanges and interactions with various stakeholders on poverty issues.

Poverty situation in 2016

15. The Government published the Hong Kong Poverty Situation Report 2016 in November 2017. In 2016, on the back of moderate economic growth and a stable labour market, there was an across-the-board increase in the poverty line thresholds alongside growth in employment earnings. Compared with 2015, the pre-intervention poverty figures for 2016 rose slightly, with a poor population of 1 352 500 persons and a poverty rate of 19.9%. After recurrent cash policy intervention, the poverty rate for 2016 recorded a slight increase of 0.4 percentage point to 14.7% as compared with 2015. The size of the poor population also went slightly upwards by 24 400 persons to 995 800 persons, staying below one million persons for the fourth consecutive year. The poverty situation by and large remained stable.

16. On the effectiveness of policy intervention, the Government's recurrent cash measures in 2016 continued to provide effective support for poor households, lifting 356 600 persons out of poverty and reducing the poverty rate by 5.2 percentage points. Among the measures, the means-tested CSSA and OALA had a more notable impact on poverty alleviation, reducing the poverty rate by 2.8 percentage points and 1.5 percentage points respectively. Compared with the poverty situation after taking into account recurrent cash intervention, the non-recurrent cash measures introduced in 2016 further reduced the poverty rate to 13.7%, whereas the in-kind benefits, which comprised mainly public rental housing, lifted an additional 287 300 persons out of poverty and further reduced the poverty rate to 10.4%. This indicates the important role of public rental housing in poverty alleviation.

17. In 2016, the proportion of elderly persons in domestic households increased by 0.6 percentage point (45 600 persons) to 15.7% as compared with 2015. Most elderly persons are retired with no stable income. Therefore, some "asset-rich, income-poor"

elderly persons may be statistically defined as poor, given the limitation that the poverty line measures only household income without considering assets. After recurrent cash intervention, the poverty rate of this age group was over 30%, much higher than those of other age groups. In view of the persistent ageing trend in Hong Kong, there will be an upward pressure on the overall poverty figures.

18. Looking ahead to the future poverty situation in Hong Kong, various measures to strengthen the poverty alleviation efforts and the support for the elderly, including the enhancement for OALA, the improvement of the LIFA Scheme, and the Life Annuity Scheme to be launched by the Hong Kong Mortgage Corporation Limited, will have positive impacts on the future poverty figures. Their effectiveness in poverty alleviation will be reflected in subsequent poverty situation analyses. Nevertheless, in view of rapid population ageing under which the number of retired elderly persons will continue to increase, coupled with the fact that the poverty line only takes into account income but not assets, there will be little room for significant improvement in the poverty figures.

Conclusion

19. The poverty line provides a simple and easy-to-understand quantitative basis for the Government and the community to understand the trends of the poverty situation in Hong Kong. The Government will continue to make use of the poverty line analysis to monitor the poverty situation, evaluate the effectiveness of various initiatives on poverty alleviation, as well as review and improve policy initiatives in the light of relevant data analyses.

20. The Government and the CoP will keep the application of the analytical framework of the poverty line under review and explore feasible enhancement measures to improve the dimensions of analysis and data collection so as to enrich the poverty line analysis and facilitate the public's understanding of the poverty situation in Hong Kong. The Government and the CoP will continue to communicate with stakeholders of various sectors and listen to the views of the community.

21. Members are invited to note the contents of this paper.

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