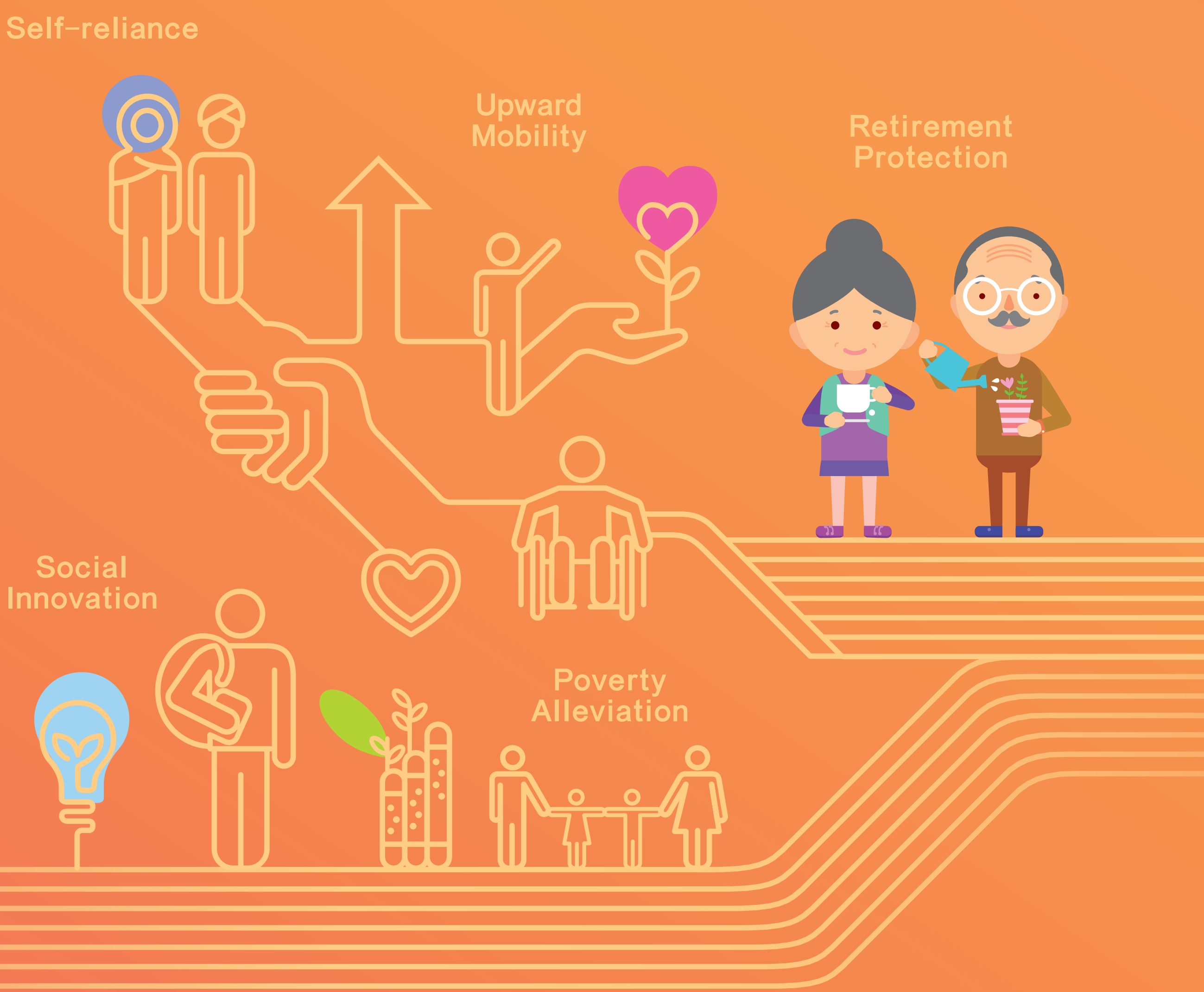
Poverty Alleviation and Retirement Protection

Progress and Vision



Chief Secretary for Administration's Office

January 2017

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Executive Summary

Poverty Alleviation and Retirement Protection: Progress and Vision

Executive Summary

1. In December 2012, this term of the Government reinstated the Commission on Poverty (CoP) which is chaired by the Chief Secretary for Administration, with four Directors of Bureau and 20 non-officials from different fields as members. In the past four years or so, the CoP has been working closely with the Government in combating poverty. The CoP has spared no efforts in taking forward various initiatives from formulating the official poverty line, developing and launching the Low-income Working Family Allowance, mounting the territory-wide retirement protection consultation exercise to strengthening support for disadvantaged groups, enhancing upward mobility for young people with grassroots background, and furthering the work of the Community Care Fund and social innovations. Apart from providing the Government with constructive advice, the CoP has also participated actively in various activities. This booklet has reviewed the work of the CoP in the past.

2. Last June, the CoP completed a six-month public engagement exercise on retirement protection. After taking into account the public views and ensuring the sustainability of our financial commitment, the Government has formulated a package of measures to strengthen each pillar, as a comprehensive response to the public aspiration for enhancing retirement protection. We will provide in this booklet a full account of the Government's proposals.

3. Salient features of the retirement protection package include-

Reinforcing the multi-pillar system

(a) Hong Kong should continue to adopt a multi-pillar retirement protection model that underlines the principle of shared responsibility among individuals/families, employers and the Government. We should strengthen each of the existing pillars while maintaining the affordability and financial sustainability of the system;

Enhancing the multi-tiered social security pillar

(b) adding a higher tier of assistance under the Old Age Living Allowance (OALA) by providing a higher monthly allowance of $3,435 per person for elderly persons with more financial needs who are eligible for the allowance, i.e. elderly singletons with assets not exceeding $144,000 or elderly couples with assets not exceeding $218,000; and relaxing the asset limits for the existing OALA[1] from $225,000 to $329,000 for elderly singletons and from $341,000 to $499,000 for elderly couples to benefit more elderly persons with financial needs;

(c) while maintaining the requirement that applicants under the Comprehensive Social Security Assistance (CSSA) Scheme will need to apply on a household basis, abolishing the arrangement for the relatives concerned to make a declaration

[1] The existing asset limits refer to the limits to take effect on 1 February 2017.

on whether they provide the elderly persons who apply for CSSA on their own (e.g. an elderly person who does not live with his children) with financial support (the so-called "bad son statement"). The information should be submitted by the elderly applicants only;

(d) raising the eligibility age for elderly CSSA from 60 to 65 to align with the direction of our population policy on the extension of retirement age. Elderly persons aged between 60 and 64 who are receiving CSSA before the new policy takes effect will, however, not be affected;

Meeting the healthcare needs of elderly persons better

(e) granting medical fee waivers automatically to older and more needy OALA recipients (i.e. OALA recipients aged 75 or above and with assets not exceeding $144,000 for singletons or $218,000 for couples) in receiving services from the public medical system;

(f) lowering the eligibility age for the Elderly Health Care Voucher from 70 to 65;

(g) providing Hospital Authority with additional $2 billion recurrent resources from 2017-18 to improve medical services for the elderly and other patients and reduce waiting time. Services provided by the Department of Health's Elderly Health Centres and Visiting Health Teams will also be enhanced;

Enhancing the Mandatory Provident Fund (MPF) System

(h) abolishing progressively the "offsetting" arrangement through three key measures -

(i) abolishing the "offsetting" arrangement with effect from a prospective date (the Effective Date) and putting in place an arrangement to "grandfather" the accrued benefits from employers' MPF contributions before the Effective Date and the returns derived therefrom for "offsetting" against the severance payment (SP) /long service payment (LSP) payable for the employment period before the Effective Date;

(ii) reducing the SP/LSP amount for the employment period from the Effective Date from the existing entitlement of two-thirds of the monthly wage to half a month's wage as compensation for each year of service; and

(iii) providing time-limited government subsidy to phase in employers' responsibility for SP/LSP in the absence of the "offsetting" arrangement over a period of ten years from the Effective Date;

(i) tasking the MPF Authority to explore the feasibility of developing a centralised electronic platform, eMPF, to streamline and standardise the operation of the MPF System with a view to further reducing fees; and

Supporting elderly persons in investment management

(j) exploring the feasibility of a public annuity scheme, Silver Bond of longer tenor, etc. to help elderly persons annuitise lump-sum assets into a steady stream of monthly income.

Chapter 1:
Poverty Alleviation —
Philosophy and Institutional Set-up

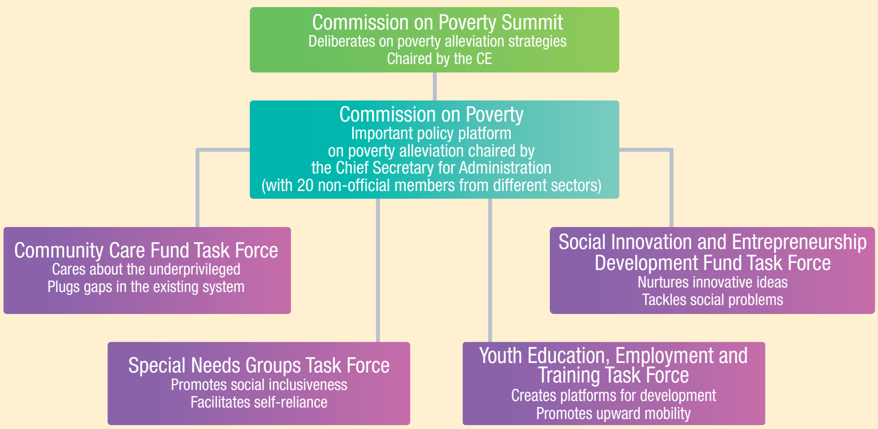
Our Philosophy

Poverty alleviation is a priority policy area of the current-term Government. Our philosophy in poverty alleviation originates from the 2012 Election Manifesto of the Chief Executive (CE). Our philosophy is to encourage people capable of working to become self-reliant through employment, while putting in place a reasonable and sustainable social security and welfare system to help those who cannot provide for themselves. The CE believes that poverty is not only a livelihood issue which concerns only the grassroots. It also affects the social harmony and stability of Hong Kong, and is closely linked to our long-term competitiveness and economic development. To alleviate poverty, the Government has to promote balanced economic development with a view to enabling different strata of society to share the fruits of development by taking part in economic activities. At the same time, the Government has strived to enhance the safety net to better protect those in need in society.

Reinstating the Commission on Poverty

1.2 To put our philosophy into practice, the Government needs a policy platform to discuss poverty alleviation initiatives. With this platform, we can draw on collective wisdom on a regular basis in understanding the forms and causes of poverty, identifying room for improvement in the existing policies and deliberating on long-term policy directions. To this end, the Government reinstated in December 2012 the Commission on Poverty (CoP), which operates under a three-tier structure (see Figure 1.1):

Figure 1.1: Organisational structure of the Commission on Poverty



(1) **Commission on Poverty Summit:** Chaired by the CE, the CoP Summit is held once a year and attended by representatives from various sectors of society. The Summit would provide an annual update of the poverty line analysis and report CoP's work progress. The CE, the Chief Secretary for Administration (CS) who chairs the CoP, and CoP members would also exchange views with participants on various poverty alleviation issues and took part in thematic discussions;

Mr Leung Chun-ying, the Chief Executive, chairing the Commission on Poverty Summit 2016

Mrs Carrie Lam, the Chief Secretary for Administration, with participating students at the Commission on Poverty Summit

The Commission on Poverty Summit attracted a full-house attendance

Mrs Carrie Lam, the Chief Secretary for Administration, and representatives of the four Task Forces under the Commission on Poverty exchanging views with participants

Mr Leung Chun-ying, the Chief Executive, taking selfies with ethnic minority participants at the Commission on Poverty Summit

(2) **Commission on Poverty:** Chaired by the CS, the CoP is a major platform for deliberation on poverty alleviation policies, with particular emphasis on the tripartite partnership among the community, the business sector and the Government. It is composed of 20 non-official members from different sectors, including the Legislative Council, trade unions, academia, business sector, and welfare organisations, as well as four ex-officio members, namely the Secretary for Labour and Welfare, Secretary for Education, Secretary for Food and Health and Secretary for Home Affairs. Its broadly representative composition allows the Government to take heed of public views and fosters consensus building during policy formulation; and

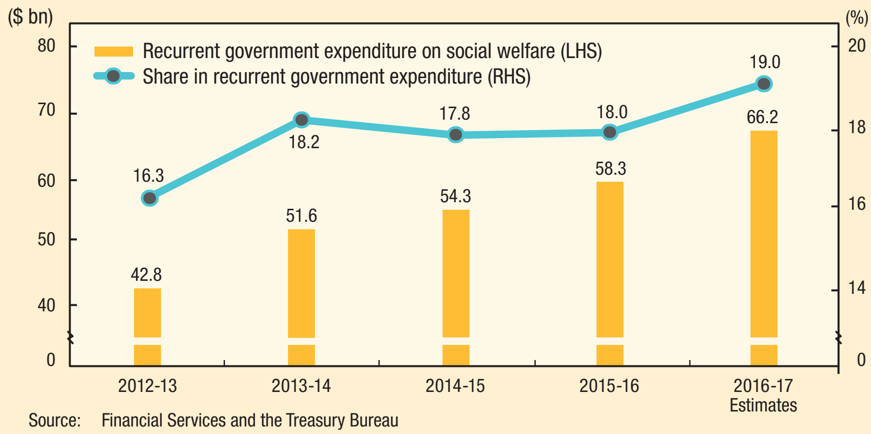
(3) **Task Forces under the CoP:** There are four Task Forces under the CoP, namely the Youth Education, Employment and Training Task Force, Special Needs Groups Task Force, Community Care Fund Task Force and Social Innovation and Entrepreneurship Development Fund Task Force, each of which has a specific area of focus and is chaired by a non-official member. The CoP members are joined by 57 co-opted members to deliberate fully on policies and measures concerning specific aspects of poverty alleviation and to manage the two poverty alleviation-related funds.

1.3 The CoP operates on a "bottom-up" approach, under which members play a key role in steering policy formulation. Proposals are knocked out by the Task Forces and then put forward to the CoP for consideration before being implemented by the Government. Chaired by the CS, the CoP is a high-level collaboration platform. Participation of the relevant policy bureaux and government departments can facilitate cross-bureau and cross-department collaboration in implementing new poverty alleviation policies. This is conducive to maximising policy effectiveness.

Expenditure on Poverty Alleviation

1.4 The current-term Government is committed to taking poverty alleviation forward. To address the needs of different groups in our society, we have introduced a series of initiatives to tackle poverty and support the disadvantaged, including launching financial assistance schemes such as the Old Age Living Allowance (OALA) Scheme and the Low-income Working Family Allowance (LIFA) Scheme, facilitating the integration of ethnic minorities into the community, promoting the employment of persons with disabilities, and strengthening support services for students with special education needs (SEN). Correspondingly, government spending on social welfare has increased significantly. Our estimated recurrent expenditure on social welfare for 2016-17 is $66.2 billion, accounting for 19% of the total recurrent government expenditure of the year, second only to education. Compared to the figure for 2012-13, it represents an increase of 55%, far exceeding the increase of 32% in total recurrent government expenditure of the same period (see Figure 1.2).

Figure 1.2: Recurrent government expenditure on social welfare, 2012-13 - 2016-17



Source: Financial Services and the Treasury Bureau

Setting the Official Poverty Line

1.5 Setting an official poverty line was a priority task of the CoP. First announced in September 2013, the poverty line provides an objective and evidence-based analysis for the Government to understand the poverty situation, formulate poverty alleviation policies and assess policy effectiveness. Providing a common basis for study of poverty issues in Hong Kong, the poverty line has gradually gained wide acceptance by academia and welfare organisations.

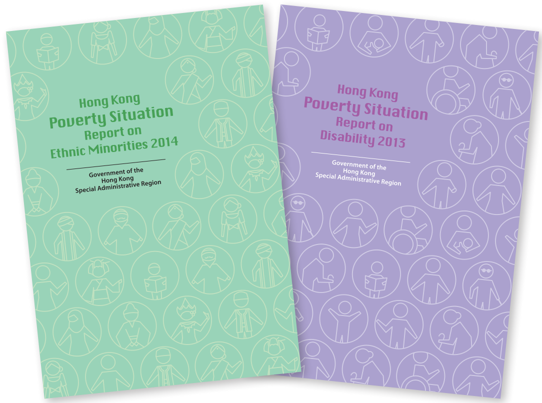
1.6 Adopting the concept of "relative poverty", the poverty line is set at 50% of the median monthly household income before policy intervention (i.e. before taxation and welfare transfers) by household size. Households with incomes below the poverty line are classified as poor while the household members concerned are counted as poor people. This concept, widely adopted by developed regions, is not only comparable to international and local practices but also consistent with our philosophy of enabling different strata of society to share the fruits of economic development.

Limitations of the Poverty Line

1.7 There is no perfect way of setting the poverty line. The official poverty line has its limitations, and one should bear this in mind in interpreting the related figures. As the poverty line measures poverty based on household income only without considering assets and liabilities, "income-poor, asset-rich" households would be classified as poor. The poverty situation may be overstated as a result. Under the concept of "relative poverty", there will always be poor population before policy intervention. Even an economic upturn with a broad-based and significant improvement in household income will not guarantee a decrease in the size of the poor population. Moreover, the poverty line should not be regarded as a "poverty alleviation line" because poverty alleviation measures should have the dual policy functions of reducing and preventing poverty. Apart from supporting the households that fall below the poverty line, we should also prevent those marginally above the poverty line from falling into poverty. In fact, the income limits of many social welfare programmes are above the thresholds of the poverty line in order to benefit more people at grassroots level as far as resources permit.

Group-specific Poverty Analyses

1.8 Based on the poverty line analysis, we published a poverty situation report on persons with disabilities in 2014 and another one on ethnic minorities in 2015. These studies help us better understand the poverty situation of specific groups and facilitate relevant Task Forces to follow up and formulate targeted support measures. We also published in 2016 a study on the earnings mobility of post-secondary graduates from grassroots families of different cohorts. Furthermore, to supplement the income-based poverty line analysis, we will soon publish an information paper entitled Supplementary Poverty Line Analysis: Expenditure Patterns of Poor Households in 2015. The supplementary analysis provides data on the expenditure patterns of poor households based on the results of the 2014/15 Household Expenditure Survey conducted by the Census and Statistics Department to further enrich the poverty line analysis.

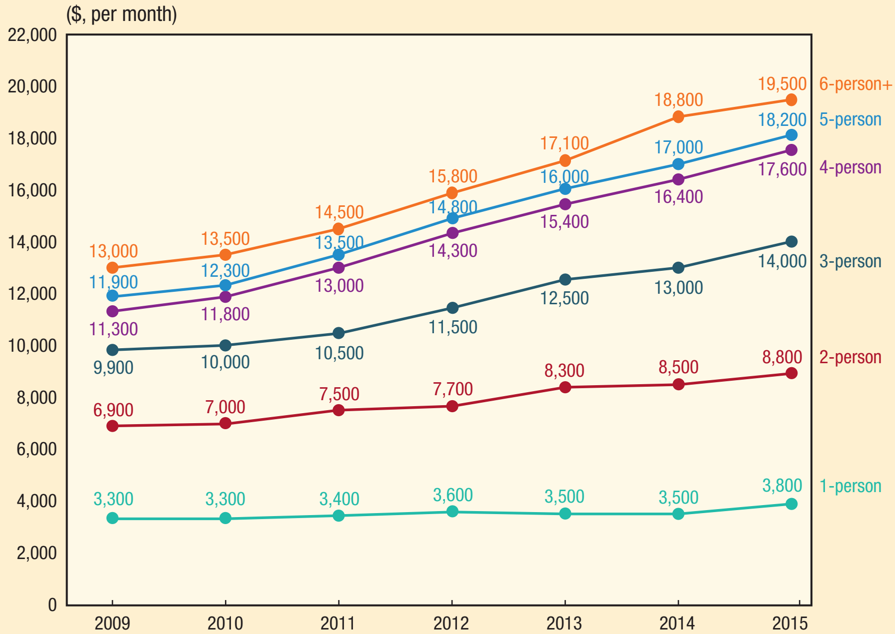


1.9 The poverty data has also been used by scholars and research institutes in their various studies, many of which are useful references for the CoP to further improve the analytical framework of the poverty line. Adopting the methodologies of two university professors, the CoP enriched the poverty line analysis in the Hong Kong Poverty Situation Report 2015 published recently by analysing the poverty situation by the age of household heads and decomposing the changes in the poverty rate into different factors.

Poverty Situation of Hong Kong in Recent Years

1.10 Poverty situation and economic development are inextricably linked. This can be reflected by the changes in the poverty line over the past few years. In recent years, our labour market has remained in a state of full employment amid steady economic growth. Coupled with the introduction and subsequent upratings of the Statutory Minimum Wage (SMW), there was substantial improvement in the earnings of grassroots workers. Along with the rising trend of median household income, the poverty line thresholds based on the concept of "relative poverty" have also gone up (see Figure 1.3).

Figure 1.3: Poverty lines by household size, 2009-2015



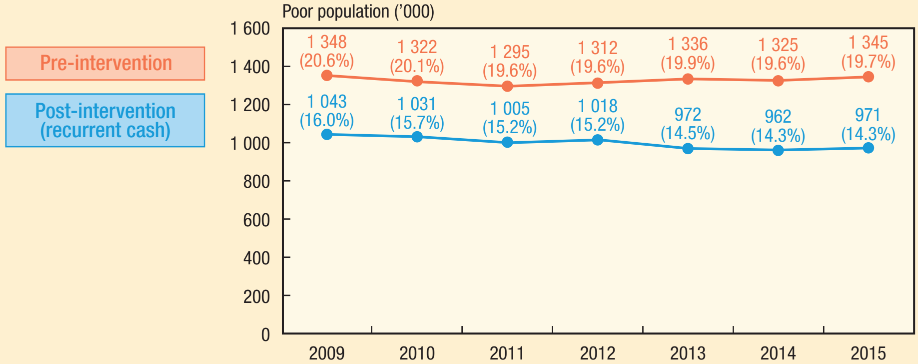
Source: General Household Survey, Census and Statistics Department

Main Analysis of the Poverty Line

1.11 The poverty situation of Hong Kong has improved in recent years. According to the poverty line analysis, after recurrent cash intervention (i.e. after taking into account recurrent cash benefits such as Comprehensive Social Security Assistance (CSSA), OALA, Disability Allowance (DA), School Textbook Assistance, etc.), Hong Kong's poor population stood at 0.97 million in 2015, which is below one million for the third consecutive year. As compared to 2009, the size of the poor population after policy intervention shrank by more than 70 000 persons. The poverty rate in 2015 was 14.3%, representing a drop of 1.7 percentage points from 2009 and remaining at a low level of the past seven years in record (see Figure 1.4).

1.12. Meanwhile, the overall CSSA caseload as at end-November 2016 had dropped for 68 consecutive months, and the numbers of unemployment cases and low-earnings cases had fallen for 87 and 93 months in a row to 14 448 and 5 299, representing decreases of 57.8% and 67.6% respectively. The drop in the number of CSSA cases alongside the improvement in our economy (see Figure 1.5) demonstrates that most people will choose to improve their living through employment when the economic conditions are favourable and that self-reliance remains a core value of Hong Kong.

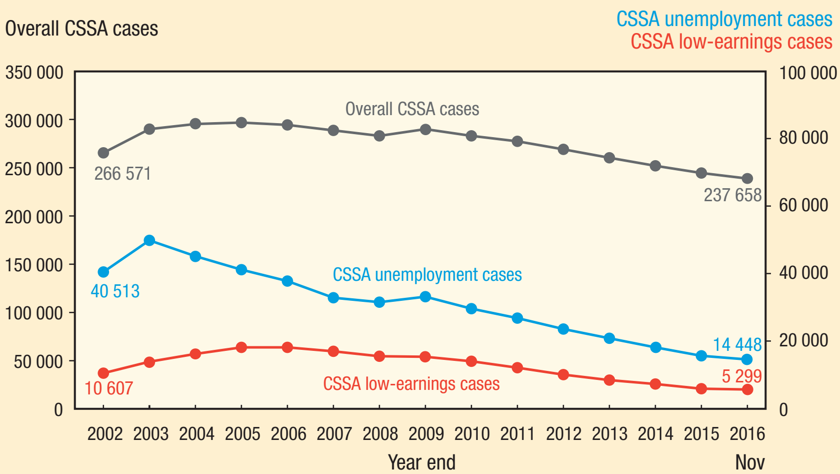
Figure 1.4: Poor population and poverty rate after recurrent cash benefits, 2009-2015



Poor population ('000)	2009	2010	2011	2012	2013	2014	2015
Pre-intervention	541	536	530	541	555	555	570
Post-intervention (recurrent cash)	406	405	399	403	385	383	392

Note: ( ) Figures in parentheses denote the corresponding poverty rates
Source: General Household Survey, Census and Statistics Department

Figure 1.5: Overall CSSA caseload and numbers of unemployment and low-earnings cases

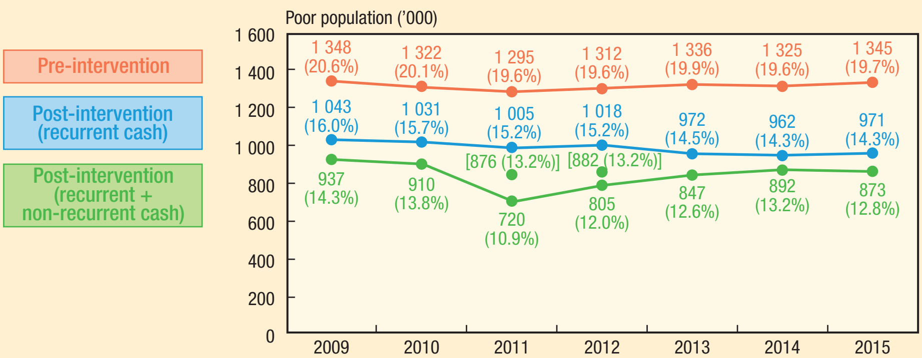


Source: Social Welfare Department

Supplementary Analysis of the Poverty Line

1.13 The main analytical framework of the poverty line reflects the poverty situation before policy intervention, evaluates the effectiveness of the Government's recurrent cash measures in poverty alleviation and analyses the poverty situation of households of different socio-economic characteristics after the recurrent cash interventions. Supplementary analysis is conducted on a yearly basis to assess the effectiveness of non-recurrent cash benefits and in-kind benefits in alleviating poverty (see Figures 1.6 and 1.7), so as to allow us to gain a more comprehensive understanding of the effectiveness of our poverty alleviation policies as a whole. Non-recurrent cash benefits include mainly the one-off relief measures announced in the Budgets, such as a one-off additional payment or allowance for CSSA and Social Security Allowance recipients. Of the in-kind benefits, the provision of the means-tested public rental housing (PRH) is the most important policy. Given that the welfare transfer of PRH is not an actual cash subsidy, in line with international practice, we have adopted the concept of opportunity cost to estimate the amount of PRH welfare transfer in the poverty line analysis. The concept is that if a PRH unit were leased in a hypothetical open market, the difference between the imputed market rent and the actual rent paid by the household would be the housing benefit enjoyed by the household.

Figure 1.6: Poor population and poverty rate after non-recurrent cash benefits, 2009-2015

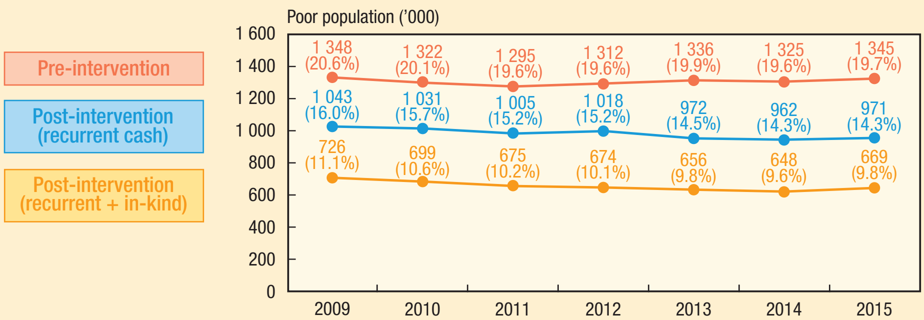


Poor households ('000)	2009	2010	2011	2012	2013	2014	2015
Pre-intervention	541	536	530	541	555	555	570
Post-intervention (recurrent cash)	406	405	399	403	385	383	392
Post-intervention (recurrent + non-recurrent cash)	361	354	281[339]	312[341]	333	355	354

Note: ( ) Figures in parentheses denote the corresponding poverty rates
[ ] Figures in square brackets denote the corresponding poverty figures with the effect of "Scheme $6,000" excluded
As "Scheme $6,000" was covered in 2011 and 2012 only, there were no corresponding figures for other years

Source: General Household Survey, Census and Statistics Department

Figure 1.7: Poor population and poverty rate after in-kind benefits, 2009-2015



Poor households ('000)	2009	2010	2011	2012	2013	2014	2015
Pre-intervention	541	536	530	541	555	555	570
Post-intervention (recurrent cash)	406	405	399	403	385	383	392
Post-intervention (recurrent + in-kind)	284	278	271	272	269	271	281

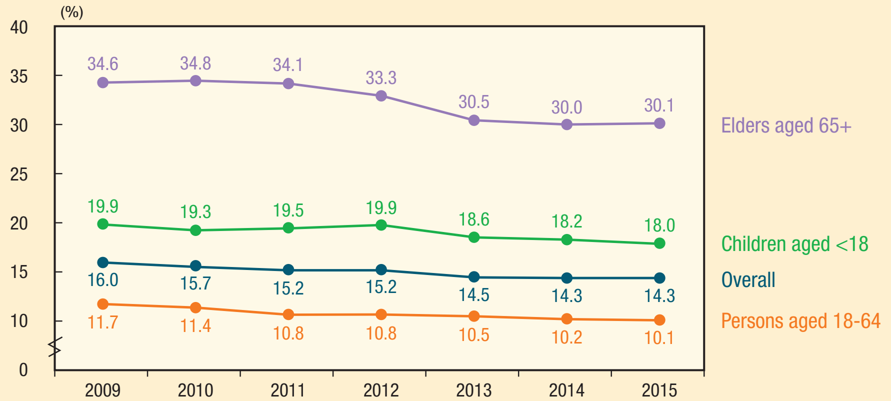
Note: ( ) Figures in parentheses denote the corresponding poverty rates

Source: General Household Survey, Census and Statistics Department

Challenges on Poverty Alleviation arising from Population Ageing

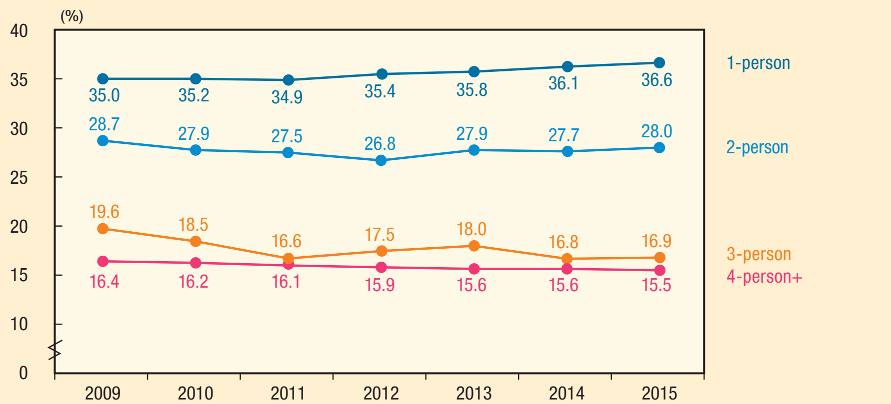
1.14 An ageing population poses challenges to further improving the poverty figures in the future. The poverty line analysis reflects that the poverty rate of elderly persons has been consistently above those of other age groups (see Figure 1.8) despite its noticeable improvement since the introduction of the OALA in 2013. This is due to the use of household income as the sole indicator for poverty measurement. As most of the elderly persons are retirees with no employment earnings, they would be classified as poor. A growing proportion of the elderly population will therefore push up the poverty rate. Population ageing may also affect the poverty figures through dwindling household size as elderly persons are more often living alone or with their spouses only. Statistics indicate that the numbers of 1- and 2-person households have been on the rise in recent years and their poverty rates are markedly higher than those of the larger households (see Figure 1.9). These two structural factors arising from population ageing have made it more difficult to bring down the poverty figures in the future.

Figure 1.8: Poverty rates by age group (after policy intervention)



Source: General Household Survey, Census and Statistics Department

Figure 1.9: Poverty rates by household size (before policy intervention)



Source: General Household Survey, Census and Statistics Department

1.15 With reference to the studies of Professor Paul Yip Siu-fai, we attempted to decompose the changes in the poverty rate into different factors. Estimates indicate that from 2009 to 2015, factors such as economic growth and the Government's poverty alleviation efforts could have reduced the poverty rate by 2.51 percentage points. However, 0.80 percentage point of it was offset by the increase in elderly population and the number of 1- to 2-person households. As a result, a drop of only 1.7 percentage points was seen in the poverty rate during the same period (see Figure 1.10).

Figure1.10: Decomposition of changes in the poverty rate, 2009-2015

Post-recurrent cash intervention poverty rate in 2009	16.0%
Decomposition of changes in the poverty rate between 2009 and 2015 into the following three factors	
1. Age structure (Ageing → Overall poverty rate ↑)	+ 0.51percent point
2. Household size (Smaller household size ↑ → overall poverty rate ↑)	+ 0.29percent point
3. Other factors including economic performance and the Government's poverty alleviation efforts	- 2.51percent points
Post-recurrent cash intervention poverty rate in 2015	14.3%

Source: Hong Kong Poverty Situation Report 2015

1.16 Looking ahead, population ageing is expected to accelerate. Changes in the population age structure and the dwindling household size are expected to increase the pressure for poverty figures to rise further. This, together with the lifting of the poverty line thresholds as a result of rising wages, would entail looming difficulty for a continuous decline in future poverty figures. Given limited public resources, future poverty alleviation measures and resource allocation have to be more targeted in order to further improve the poverty figures.

Chapter 2: Poverty Alleviation — Progress Achieved

Role of the Government

Creating Job Opportunities through Economic Development

2.1 The Government is committed to enabling different strata of society to share the fruits of prosperity by promoting balanced economic development and offering diversified job opportunities. Hong Kong's economy has grown steadily in recent years and enjoyed an average annual growth rate of about 2.5% in real terms in 2012 to 2015. With the unemployment rate staying at a low level of 3.3% to 3.4% over the past four years, the overall labour market has been generally stable and is in a state of full employment. Employment earnings in different segments show continuous improvements in real terms. As compared with 2011, the average employment earnings of all full-time employees (excluding foreign domestic helpers) in 2015 increased by 22.5% or 4.9% in real terms after netting off inflation.

2.2 The SMW protects the interests of grassroots workers in Hong Kong. In our regular review and adjustment of the SMW, we need to strike an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, while sustaining Hong Kong's economic growth and competitiveness. The introduction of the SMW in May 2011 and the two rounds of uprating in 2013 and 2015 have seen significant increase in the earnings of grassroots workers. Subject to the approval of the Legislative Council, the revised SMW rate (i.e. $34.5 per hour) will take effect in May 2017. As compared with 2011, the average employment earnings of full-time employees in the lowest decile group (excluding foreign domestic helpers) in 2015 increased by about 28.6% or 7.6% in real terms after netting off inflation. The SMW, coupled with the steady economic development of Hong Kong, has encouraged more people who can work to become self-reliant by entering or re-entering the labour market.

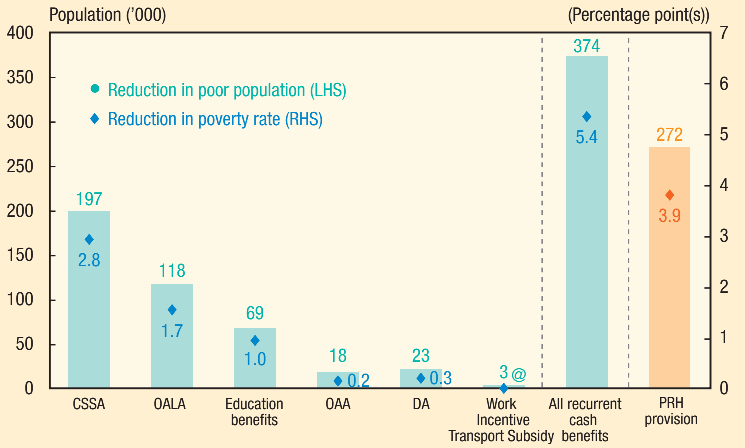
Income Redistribution

2.3 The Government is also playing an active role in income redistribution. Through different policy initiatives, social and Government resources are allocated to ensure that different strata of society can share the fruits of economic development and those in need are provided with the necessary support. By doing so, we are able to build a more harmonious community and provide better protection for the grassroots.

Public rental housing

2.4 PRH is a heavily-subsidised poverty alleviation measure. At present, about one-third of Hong Kong's total population (i.e. over 2 million people) are living in PRH. Poor PRH households, benefiting from the lower rents, have notably lower average share of expenditure on housing, and can afford to spend a larger proportion of their financial resources on non-housing expenditure items such as food and education than their counterparts living in private rental housing. This shows that the provision of PRH can help relieve the financial burden of grassroots families and improve their living standards. The poverty line analysis for 2015 also indicates that the provision of PRH reduced the poverty rate by 3.9 percentage points (see Figure 2.1). It is clear that PRH is effective in alleviating poverty.

Figure2.1: The notable effect of PRH provision in poverty alleviation



	CSSA	OALA	Education benefits	OAA	DA	WITS	All recurrent cash benefits	PRH provision
Reduction in poor households ('000)	108	54	18	9	8	1	177	102

Note: (@) Less than 0.05 percentage point
Source: General Household Survey, Census and Statistics Department

2.5 To address the housing needs of the grassroots, the Government has been striving to allocate more resources to increase PRH supply, and has formulated and implemented the Long Term Housing Strategy. According to the estimation as at the end of September 2016, over 70 000 PRH units will be produced in the coming five years (2016-17 to 2020-21). Nonetheless, the current average waiting time[1] of general PRH applicants (i.e. family and elderly one-person applicants) is more than four years. As it takes time to identify land for housing development and the progress of individual projects is often affected by factors outside our control, it is unlikely that the deep-seated problem of supply-demand imbalance can be resolved in the near future. Coupled with the increasing new demand for PRH, it will be impossible for the Government to fully meet the public's PRH demand in the short run. The Government will continue its efforts to increase PRH supply. Meanwhile, we will actively consider rolling out appropriate measures to help improve the quality of life of the households in need in the short or medium term.

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[1] Waiting time refers to the time taken between registration for PRH application and the first flat offer, excluding any frozen period during the application period (e.g. when the applicant has not yet fulfilled the residence requirements; the applicant has requested to put his/her application on hold pending arrival of family members for family reunion; the applicant is imprisoned, etc.). The average waiting time for general applicants refers to the average of the waiting time of those general applicants who were housed to PRH in the past 12 months.

Social security

2.6 The current-term Government's philosophy on poverty alleviation is to promote economic development and encourage employment while striving to improve the social security system so as to offer those who cannot provide for themselves appropriate support and a safety net as the last resort (see Figure 2.2).

Figure 2.2: Government expenditures on social security schemes

Scheme	Estimates for 2016-17 ($ Billion)#	Number of recipients as at end-November 2016
CSSA	22.51	350 000
OALA	14.61	442 000
Old Age Allowance (OAA)*	3.75	235 000
DA	3.68	141 000

Note: * The Government has also implemented the Guangdong Scheme to provide OAA to eligible Hong Kong elderly persons who choose to reside in Guangdong. The estimated expenditure for 2016-17 is $290 million. The number of recipients was around 15 000 as at end-November 2016

Figures include the amount spent on one-off relief measures

Source: Social Welfare Department

Education

2.7 We provide 12 years of free education to all school-age children in Hong Kong irrespective of their family backgrounds and household incomes. In the 2017/18 academic year, the Free Quality Kindergarten Education Scheme will be implemented to extend the duration of free education to 15 years. In addition, education grants, including School Textbook Assistance, Student Travel Subsidy and Subsidy for Internet Access Charges, are provided for students in financial need to meet their various learning needs.

Healthcare

2.8 The services provided by our public healthcare system are heavily subsidised (overall subsidisation rate is as high as 93%) and serve as a public health safety net for Hong Kong people. To ensure that no one will be denied adequate healthcare due to lack of means, the Hospital Authority (HA) has put in place a medical fee waiver mechanism to provide assistance for patients who meet the assessment criteria and cannot afford the public healthcare service charges owing to financial difficulties. In addition, all CSSA recipients are waived from payment of public healthcare services.

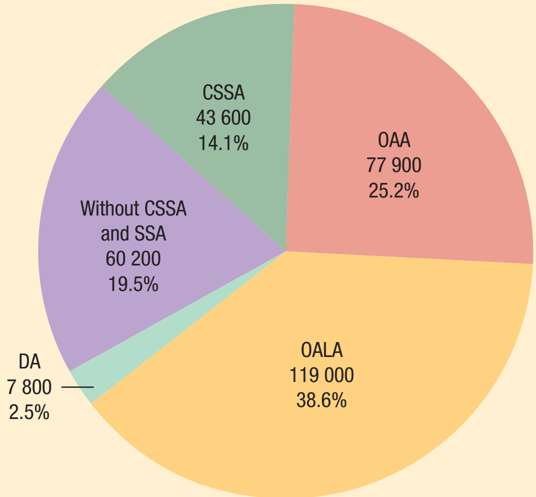
Elderly Poverty

Poverty Situation of Elderly Persons

2.9 According to the poverty line analysis, about 0.31 million elderly persons aged 65 or above were defined as poor in 2015, representing a poverty rate of 30.1%, about double of the overall poverty rate. Our social security system currently covers over 80% of poor elderly persons (see Figure 2.3), providing them with some form of support for their living.

2.10 Nevertheless, we are aware that some elderly persons have yet to be adequately cared for under the current retirement protection system. To address the issue, the Government commissioned the CoP to carry out the 6-month "Retirement Protection Forging Ahead" public engagement exercise which ended in June last year. After analysing the views collected during the consultation period, we have formulated the policy direction for the future development of retirement protection. Details can be found in Chapter 3.

Figure2.3: Coverage of various social security schemes



Number of elderly persons : 308 500

Note: Poor elderly persons after recurrent cash policy intervention
Source: General Household Survey, Census and Statistics Department

Working Poor

Situation of the Working Poor

2.11 Despite the steady development of Hong Kong's economy and labour market in recent years and the protection offered by the SMW, not all poor people can be lifted out of poverty through employment. In 2015, there were more than 0.13 million of non-CSSA working poor households (involving nearly 0.45 million people) (see Figure 2.4). Despite a slight decline in recent years, the number of these households was still substantial. This indicates that the problem of the working poor remains unresolved and targeted policy support is needed.

Figure 2.4: Poverty data on non-CSSA working households, 2009-2015

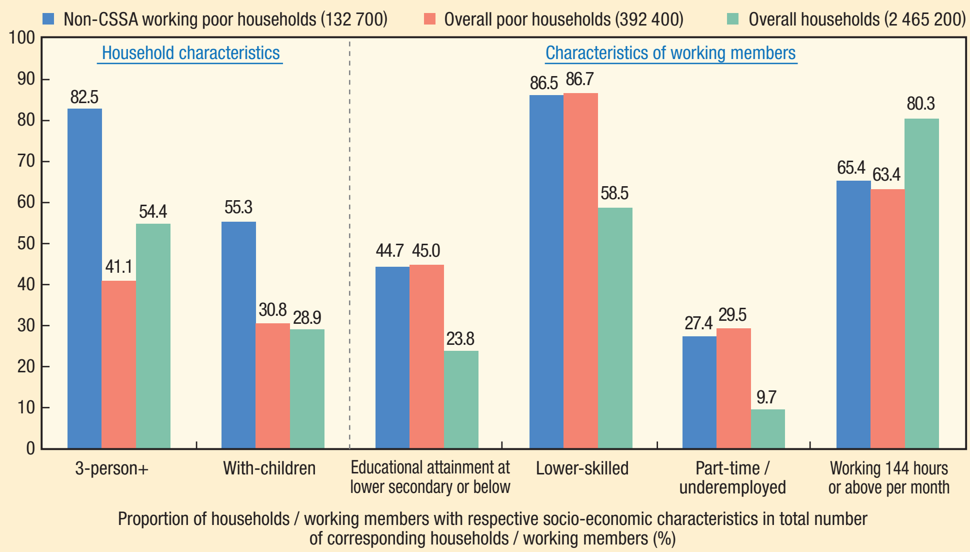
Poverty statistics	2009	2010	2011	2012	2013	2014	2015
Number of households	146 100	140 500	133 600	143 500	140 800	136 200	132 700
Population	495 800	480 600	462 700	493 200	469 700	459 100	447 800
Poverty rate (%)	8.9	8.6	8.2	8.6	8.1	7.9	7.7

Note: Based on poverty statistics after recurrent cash intervention
Source: General Household Survey, Census and Statistics Department

Characteristics of Non-CSSA Working Poor Households

2.12 To provide effective support for the working poor households, we need to gain a more comprehensive understanding of their poverty situation. Figure 2.5 shows that over 80% of working poor households were large families with three members or more, and over half of the families had children to take care of. Moreover, more than 80% of these households had only one working member, leading to a high dependency ratio (each working member supporting 1.8 family members on average). Of these working poor households, many were new-arrivals, single-parent and ethnic minority households. Given their relatively low educational attainment and skills levels, the working members of these households were usually engaged in elementary-level jobs. Given their heavy family burden, the Government needs to provide these households with targeted support in order to alleviate their poverty situation and reduce the risk of inter-generational poverty.

Figure 2.5: Selected socio-economic characteristics of non-CSSA working poor households, 2015



Note: ( ) Figures in parentheses denote the corresponding number of households
Poverty statistics refer to statistics after recurrent cash intervention

Source: General Household Survey, Census and Statistics Department

Low-income Working Family Allowance

2.13 With reference to the poverty line analysis, the Government launched the LIFA Scheme in May 2016. Under the Scheme, the amount of the allowance is tied to applicants' working hours and monthly family income (see Figure 2.6). LIFA aims to provide financial assistance to these self-reliant low-income families and to encourage them to stay in active employment. It is designed with the dual functions of alleviating and preventing poverty. To reduce the risk of inter-generational poverty, eligible families with school children will receive an additional allowance. Since its implementation in May 2016, over 32 000 applications from over 28 000 families has been approved, benefiting more than 0.1 million people. Having regard to the policy objectives of the Scheme and comments from the public and concern groups, we abolished the absence rule in December 2016. The Labour and Welfare Bureau (LWB) will conduct a comprehensive policy review in mid-2017 to further improve the Scheme.

Figure 2.6: Amounts of allowances and working hour requirements of LIFA

Monthly Working Hours (Hours)	Monthly Basic Allowance for Each Family	Monthly Child Allowance for Each Child
144 to less than 192 (non-single-parent families) 36 to less than 72 (single-parent families)	Full-rate Basic Allowance: $600 Half-rate Basic Allowance: $300	Full-rate Child Allowance: $800 Half-rate Child Allowance: $400
192 or more (non-single-parent families) 72 or more (single-parent families)	Full-rate Higher Allowance: $1,000 Half-rate Higher Allowance: $500	

Upward Mobility of Young People from Underprivileged Background

Young People from Underprivileged Background in need of Educational Resources from the Government

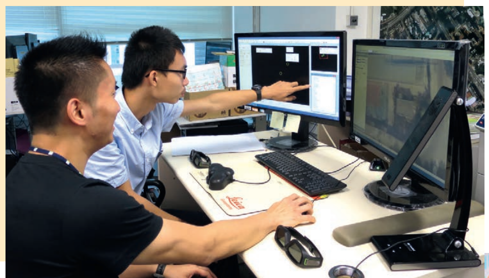
2.14 Family resources are vital for the education and future development of our next generation. However, the 2015 data indicate that there were 0.18 million children under the age of 18 living in poor households, representing a poverty rate of 18.0%. The above data also show that a significant number of children were living in working poor households. Parents of these households, though being self-reliant, are not able to lift their families out of poverty nor afford to give their children access to extracurricular activities or other personal development opportunities. Apart from allocating additional resources to the children in eligible working poor households through the LIFA Scheme to enable them to better equip themselves, the Government is also actively implementing various projects to give these children a fair chance to climb up the social ladder.

Current Situation of Upward Mobility of Young People from Grassroots Families

2.15 In May 2016, the Youth Education, Employment and Training Task Force under the CoP published the findings of a study on the earnings mobility of post-secondary graduates from grassroots families, focusing on the comparison of changes in earnings of post-secondary graduates from the 2001/02 and 2006/07 cohorts after they entered the labour market. The findings show that post-secondary graduates of different qualifications from the 2006/07 cohort had lower upward earnings mobility than the 2001/02 cohort, which is in line with the general impression of the public. Among the first degree graduates, 89% of the 2001/02 cohort moved upwards within five years, whereas the corresponding proportion for the 2006/07 cohort was 81%. The statistics also show that, among the first degree graduates from the 2006/07 cohort, those from families of lower income had lower upward earnings mobility. CoP members expressed their concern when they examined the findings and made several recommendations on promoting the upward mobility of young people. One of the recommendations is to use a more targeted approach in providing students from needy families with grants to ensure that they have equal access to post-secondary education and have the chances to achieve upward mobility.

Government Promoting the Whole-person Development of Young People from Underprivileged Background

2.16 In recent years, society considers that providing a level-playing field for all young people involves multiple efforts. Apart from ensuring that no young people would be denied access to quality education owing to lack of resources, society generally considers that all young people, regardless of their backgrounds, should enjoy equal opportunities to explore the world, develop their interests and fully realise their potential. The current-term Government has developed a platform for the community, the business sector, the Government and the academia to collaborate and provide more comprehensive learning support for young people from underprivileged background. The Partnership Fund for the Disadvantaged is one of these initiatives. To encourage organisations in the community to launch more after-school learning and support programmes for primary and secondary students from grassroots families, the Fund has set aside a dedicated portion of $200 million to provide matching grants for the resources devoted by the business sector. These programmes provide academic support, as well as training on social skills and confidence-building, and equip students from grassroots families with knowledge about workplace, so as to facilitate their whole-person development. Besides, the Child Development Fund, the "Future Stars" Programme and the "Life Buddies" Scheme, all encompass an element of mentorship, enable participants from the community and the business sector to establish a friendly relationship with young people or provide them with opportunities to gain workspace exposure. All these can help young people broaden their horizons and develop a clearer understanding of their own life goals.



The "Future Stars" Programme and the "Life Buddies" Scheme helping young people from underprivileged background broaden their horizons

Support for the Disadvantaged

2.17 The current-term Government has implemented a number of policies and initiatives to provide targeted support to meet the specific needs of different underprivileged groups. We also conducted thematic studies on the poverty situation of ethnic minorities and persons with disabilities respectively in order to better understand their daily problems and facilitate the integration of possible solutions.

Ethnic Minorities

Facilitating ethnic minorities to learn Chinese

2.18 According to the statistics from the 2011 Population Census, there were over 60 000 South Asian ethnic minorities who called Hong Kong home, and their poverty rate was as high as 22.6%. Employment and education are the most effective means for them to integrate into mainstream society. Learning Chinese is of particular importance for them to adapt to Hong Kong's way of life. Starting from the 2014/15 school year, the Education Bureau (EDB) has implemented the Chinese Language Curriculum Second Language Learning Framework (Learning Framework). In tandem, an annual provision of $200 million has been provided for schools to help non-Chinese speaking (NCS) students overcome the difficulties of learning Chinese as a second language and create an inclusive learning environment in schools. The objective is to support NCS students to learn Chinese systematically with a view to enabling them to bridge over to mainstream Chinese Language classes as soon as possible to learn Chinese together with their Chinese-speaking counterparts, hence achieving social inclusion. According to the findings in the 2015/16 school year, the Learning Framework helped NCS students improve their Chinese proficiency. On writing, the performance of NCS students with relatively higher ability was comparable with that of their Chinese-speaking counterparts of the corresponding grade, while their performance in reading slightly lagged behind. Besides, we have implemented at the senior secondary levels Applied Learning Chinese (for Non-Chinese Speaking Students) (ApL(C)) courses, which are pegged at the Qualifications Framework Levels 1 to 3, to provide NCS students with an additional channel to acquire an alternative Chinese Language qualification other than the Hong Kong Diploma of Secondary Education (Chinese Language) Examination.

The Special Needs Groups Task Force under the Commission on Poverty chatting with ethnic minority students to understand first-hand their difficulties in learning Chinese

Employment support for ethnic minorities


Two police officers of non-ethnic Chinese origins

2.19 The current-term Government leads by example in promoting the employment of ethnic minorities. In respect of civil service recruitment, some departments have suitably adjusted the recruitment selection process having regard to the job requirements in terms of Chinese proficiency. For example, over 20 civil service grades have lowered the Chinese Language Proficiency Requirements and some grades have replaced the written test in Chinese with a group interview. The Fire Services Department also made adjustments to their policy in 2015, by making available recruitment aptitude tests, examinations taken during training of new recruits and training notes in both Chinese and English, so as to facilitate more non-ethnic Chinese to access job opportunities in the Department and provision of effective training after appointment. The Police Force and the Correctional Services Department (CSD), have actively tapped into non-ethnic Chinese job applicants in recent years. The success rates of non-ethnic Chinese applying for the posts of Police Constable and Assistant Officer II of the CSD are 18.8% and 5.6% respectively, higher than those of other applicants. By tapping the talent pool of ethnic minorities, we hope to enhance the diversity of our civil service workforce to provide quality public services for people of different backgrounds. At the same time, the Labour Department (LD) has been providing various dedicated employment support services that cater to the needs of ethnic minority job seekers through its job centres and job fairs.

Promoting the use of public services among ethnic minorities

2.20 To better understand the levels of awareness and satisfaction of ethnic minorities of our key public services, we have commissioned a think tank to conduct a thematic study to review the existing public services provided especially for ethnic minorities and make specific recommendations to ensure that ethnic minorities are given equal access to public services. The services covered by the study include employment support services of the LD, training services of the Employees Retraining Board, family and youth services of the Social Welfare Department (SWD), and integration, interpretation and translation services of the Home Affairs Department. The study is expected to be completed in mid-2017.

Persons with Disabilities

Policy objective to support persons with disabilities

2.21 According to the statistics for 2013, the poverty rate of persons with disabilities in Hong Kong was 29.5%, representing a poor population of about 0.15 million people. It is our policy objective to provide persons with disabilities with training and support services in order to enable them to realise their potential and utilise their own capabilities in suitable jobs. This can help them achieve self-reliance, gain self-confidence and integrate into the community. The Government launched the Talent-Wise Employment Charter at the CoP Summit 2013, with an aim to foster social integration through encouraging government departments, the business sector, public bodies, and subvented and non-governmental organisations (NGOs) to adopt measures to promote the employment of persons with disabilities. So far, over 520 organisations have participated in the Charter.

Promoting the employment of persons with disabilities

2.22 To promote the employment of persons with disabilities and strengthen support for their carers, the current-term Government rolled out three pilot schemes in one go through the Community Care Fund (CCF) in 2016. The three pilot schemes respectively raises the maximum level of disregarded earnings for CSSA recipients with disabilities; provides an additional monthly subsidy of $5,000 for Higher DA recipients in paid employment to hire carers; and offers a monthly living allowance of $2,000 to low-income carers of persons with disabilities.

2.23 To strengthen employment support for job seekers with disabilities, the LD launched a two-year pilot scheme in September 2016 to engage a non-governmental welfare organisation to offer professional psychological and emotional counselling service for job seekers with disabilities in need. The service aims to alleviate the emotional problems of job-seekers with disabilities arising from the state of their disabilities, or personal or family issues, so as to help them concentrate on job search and settle down in their new jobs, thereby realising their potential in employment.

2.24 The Civil Service Bureau launched a pilot scheme in 2016, arranging 20 undergraduate students with disabilities and 23 students from the Shine Skills Centres of the Vocational Training Council to work as interns in different government departments. The scheme offered them the opportunities to gain hands-on work experience and learn how to get along and co-operate with their colleagues, so as to get prepared for entering the job market in the future. The scheme also gave civil service colleagues the opportunity to gain a better understanding of the potential of students with disabilities. In view of the positive feedback on the pilot scheme, we plan to continue to offer students with disabilities internship opportunities in government departments in 2017.

Award presentation ceremony of the 2015-16 Talent-Wise Employment Charter and Inclusive Organisations Recognition Scheme

Mr Matthew Cheung Kin-chung, Secretary for Labour and Welfare, and an undergraduate student participating in the internship scheme of the government

Review of the Disability Allowance

2.25 The inter-departmental working group co-ordinated by the LWB completed the review of the DA in 2016, and improvement measures are being implemented progressively. These include improving the medical assessment mechanism for the DA; keeping in view the implementation of the World Health Organization's updates of the International Classification of Functioning, Disability and Health in neighbouring places with a view to exploring how to devise a set of comprehensive and widely accepted definitions of disabilities and the levels of disabilities in Hong Kong; and launching the pilot schemes to support the employment of persons with disabilities through the CCF and NGOs.

Children with Special Needs

Pilot Scheme on On-site Pre-school Rehabilitation Service

2.26 Providing rehabilitation services for children with special needs in a timely manner within the critical treatment period can give these children a greater chance of integrating into the mainstream education in the future. Through the early intervention programmes co-ordinated by the SWD, subvented pre-school training places are provided for children with special needs from birth to the age of six. However, the shortage of subvented places has been a long-standing problem. As at October 2016, over 7 000 children were on the waiting list for the services and the average waiting time in 2015-16 was 12.3 to 18.8 months. To ensure children with special needs will have timely access to intervention services during the critical treatment period, the current-term Government allocated $422 million from the Lotteries Fund to roll out in phases from November 2015 to January 2016 a two-year Pilot Scheme on On-site Pre-school Rehabilitation Services. Under the Pilot Scheme, around 3 000 training places were provided for children with special needs by inter-disciplinary teams co-ordinated by NGOs. The Government has also earmarked a recurrent provision of $460 million to continue and extend the service at the end of the two-year pilot scheme. Upon regularisation of the Pilot Scheme, the number of service places will increase to 7 000 in phases, significantly reducing the waiting time for the subvented services.

The Pilot Scheme on On-site Pre-school Rehabilitation Service provides timely training and support to children with special needs

CCF assistance programmes for children with special needs

2.27 The CCF started a three-year pilot project in the 2015/16 school year to provide a cash grant for public sector ordinary schools with relatively more students with SEN and financial needs to strengthen the teaching team of the schools so that a teacher designated as the Special Educational Needs Co-ordinator (SENCO) can be deployed to co-ordinate matters relating to students with SEN. The pilot project covers 124 public sector ordinary primary and secondary schools, benefiting about 9 700 students with SEN in the 2015/16 school year. To implement the pilot project effectively, the EDB has commissioned experienced experts from overseas to provide training to the SENCO, and to evaluate the effectiveness of the pilot project so as to offer practicable recommendations on the way forward.

2.28 The CCF has also provided funding to increase the amount of academic expenses grant for the period from the 2015/16 to 2017/18 academic years to strengthen support for post-secondary students with SEN and financial needs. Each eligible student may receive additional academic expenses grant of up to $8,320 in the 2016/17 academic year.

New-arrivals and Single-parent Families

2.29 The Government has put in place various poverty alleviation policies and welfare measures to support eligible new-arrivals and single-parent families. In 2014, the SWD expanded the Neighbourhood Support Child Care Project by providing additional funding for participating service operators and additional places for home-based child care service. The SWD also strengthened family-friendly measures by enhancing the After School Care Programme in 2014 through extended service hours and increased fee-waiving quotas to help new arrivals and single parents fulfil both their family and work commitments. The Special Needs Groups Task Force of the CoP, after holding two focus group sessions in March 2016 to collect the stakeholders' views, will continue to explore support measures for new arrivals and single parent families.

Community Care Fund

Major Functions

2.30 As an integral part of the Government's poverty alleviation blueprint, the CCF provides assistance for people who are facing financial difficulties but are not adequately covered by the existing safety net. The CCF has two major functions. Firstly, it plugs the gaps in the existing system by providing transitional assistance for people with financial difficulties before the relevant policies are introduced or incorporated into the Government's regular assistance programmes. For example, in the 2015/16 school year a one-off special subsidy was given to students receiving full grants under the School Textbook Assistance Scheme before the implementation of the LIFA Scheme, and a one-off grant was provided to needy families to defray school-related expenses incurred from their children's kindergarten education in the 2016/17 school year before the implementation of the Free Quality Kindergarten Education Scheme in the 2017/18 school year. Secondly, the CCF enables the Government to gauge the effectiveness of various assistance programmes by rolling out pilot schemes before we consider incorporating them into the Government's regular assistance programmes in the future. The pilot schemes implemented through the CCF have a broad coverage. Apart from the above pilots schemes designated for students with SEN and persons with disabilities, the CCF will also launch a two-year Dementia Community Support Scheme. In collaboration with the HA and the SWD, District Elderly Community Centres will provide dementia support services to elderly persons and their carers at the community level through a medical-social collaboration model. Furthermore, we are going to roll out a number of new assistance programmes through the CCF in 2017.

Management and Operation

2.31 The Community Care Fund Task Force under the CoP advises on the formulation of CCF assistance programmes. Specific proposals put forth by the Task Force will be considered and endorsed by the CoP for implementation by the relevant bureaux and government departments. Operability is the prime consideration of the Task Force in assessing the proposals. In the interest of keeping administration simple, the Task Force would prefer implementing agencies or government bureaux/departments riding on existing mechanisms to carry out the new programmes. One example is the programme entitled Subsidy to meet lunch expenses at schools, which has already been incorporated into the Government's regular assistance programme. Under this programme, the EDB, being the implementing bureau, offered funding direct to participating primary schools based on relevant student records of the Student Financial Assistance Schemes. Schools would then provide lunch for target students with the subsidy, ensuring that the target beneficiaries were benefited in the way the programme was designed for them.

2.32 Since its establishment in 2011, the CCF has approved 36 assistance programmes, involving a total commitment of over $7 billion. So far, around 1.47 million people have been benefited under these programmes. Of these assistance programmes, 11 programmes of proven effectiveness have been incorporated into the Government's regular assistance programmes, involving an annual recurrent expenditure of about $700 million (see Figure 2.7). To better utilise the flexibility of the CCF, the current-term Government injected an additional funding of $15 billion into the CCF in 2013, enabling it to roll out more targeted assistance programmes and pilot schemes at appropriate junctures. This also demonstrates the current-term Government's determination in strengthening its poverty alleviation efforts. As at the end of November 2016, the balance of the CCF stood at around $19.432 billion.

Figure 2.7: CCF assistance programmes incorporated into the Government's regular assistance programmes

1.	Subsidy for patients who marginally fall outside the Samaritan Fund (SF) safety net for the use of SF subsidised drugs
2.	Financial assistance for non-school-attending ethnic minorities and new arrivals from the Mainland for taking language examinations
3.	Subsidy for non-school-attending ethnic minorities and new arrivals from the Mainland participating in language courses
4.	Subsidy for Tenants Purchase Scheme flat owners on Comprehensive Social Security Assistance
5.	Subsidy to meet lunch expenses at schools
6.	Enhancement of the flat rate grant under the School Textbook Assistance Scheme
7.	Enhancement of the financial assistance for needy students pursuing programmes below sub-degree level
8.	Training subsidy for children who are on the waiting list for subvented pre-school rehabilitation services
9.	Special subsidy to persons with severe physical disabilities for renting respiratory support medical equipment
10.	Special subsidy to persons with severe physical disabilities for purchasing medical consumables related to respiratory support medical equipment
11.	Extra travel subsidy for needy special school students

2.33 The CCF would hold public consultation sessions annually to seek public views on existing programmes and suggestions for new programmes. The public participation can help us formulate programmes which are cost-effective and more aligned to the community needs, providing better care for all people in financial need.

Social Innovation and Entrepreneurship Development Fund

Major Functions

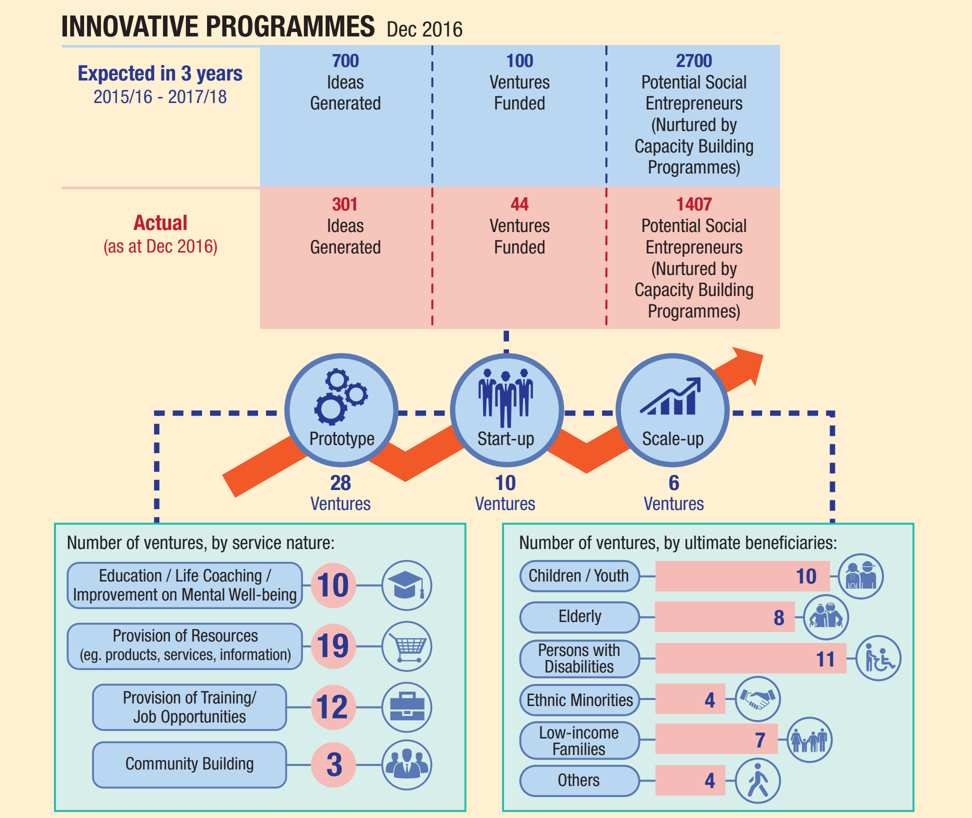
2.34 The current-term Government established the Social Innovation and Entrepreneurship Development Fund (SIE Fund) in September 2013 with an allocation of $500 million from the Lotteries Fund. The SIE Fund seeks to be a catalyst for social innovation in Hong Kong, connecting our community with different sectors, including businesses, NGOs, academics and philanthropies to create social impact through innovative solutions that address poverty and social exclusion. Mostly through intermediaries, the SIE Fund provides visionary individuals and organisations with diverse resources in support of research, capacity building and the entire life cycle of innovative

Inauguration ceremony of the SIE Fund at the Commission on Poverty Summit 2013 programmes, from idea incubation and seed funding to implementation and eventual scale-up. The goal is to foster an ecosystem where social entrepreneurs can thrive and innovative ideas, products and services can benefit society by meeting underserved needs and unleashing underutilised talents. The SIE Fund is currently managed and operated by the Social Innovation and Entrepreneurship Development Fund Task Force under the CoP.

Developing Sustainable Social Innovation Space through Funding Innovative Ventures and Launching Capacity Building Programmes

2.35 The SIE Fund has so far provided funding support through its intermediaries for 44 innovative ventures of different types and at different stages of development, benefiting over 25 000 underprivileged people. We aim to sponsor 100 innovative ventures and increase the number of beneficiaries during the three-year engagement period of intermediaries. Detailed categorisation of the 44 approved innovative ventures can be found in Figure 2.8.

Figure 2.8: Categorisation of SIE Fund's innovative ventures



2.36 The SIE Fund has launched capacity building programmes with an objective to foster the development of a sustainable social innovation space. These programmes provide visionary individuals or organisations with professional guidance and assistance in building up their own networks, in order to induce innovative ways to address the issues of poverty and social exclusion. So far, we have nurtured about 1 400 social entrepreneurs through our intermediaries. Our target is to nurture a total of 2 700 social entrepreneurs by 2018.

2.37 Meanwhile, the SIE Fund is now exploring an initiative aiming to encourage and support organised research studies in the field of social innovation. The data and knowledge acquired through research will help develop a healthy and vibrant social innovation ecosystem and pave the way for the establishment of a solution bank.

The SIE Fund announcing its first batch of innovative ventures in May 2016

Direct Funding for Thematic Programmes

2.38 Apart from funding individual innovative ventures and promoting the development of a social innovation space, the SIE Fund also funds flagship projects of specific themes direct to address issues of public concern in which innovation can kick in to bring about greater social impact. The first one is food support services. In June 2016, the SIE Fund engaged St. James' Settlement (SJS) as the intermediary to take forward the Food Support Flagship Project. SJS is tasked to design, build and operate an

The Food Support Flagship Project aims at enhancing the overall efficiency and effectiveness of food support services in Hong Kong inclusive platform enabling practitioners in the food support sector to share information on the demand and supply of food items and related services, with a view to enhancing the efficiency and effectiveness of food support services in Hong Kong. Our goal is to increase the number of hot and packaged meals prepared for the underprivileged by 50% to over 50 000 per day and the number of people benefited by 30% to over 20 000 by the end of 2019.

2.39 In addition, the SIE Fund sees the potential to bring about greater social impact through more extensive collaboration in the area of social integration. The SIE Fund will support programmes on provision of early childhood education and care services dedicated for low-income or non-Chinese speaking families with children through a Collective Impact platform to facilitate social inclusion.

Attracting the Business Sector to Participate in Social Innovation

2.40 The SIE Fund advocates innovation in businesses. We reach out to the business sector and promote the concept of "Shared Value" in Hong Kong through organising forums and workshops etc. Businesses are encouraged to adopt the new "Creating Shared Value" business strategy to address social challenges while embracing new business opportunities.

Mrs Carrie Lam, the Chief Secretary for Administration, speaking at the Shared Value Forum 2015

Raising Public Awareness of Social Innovation

2.41 The SIE Fund strives to enhance public awareness and understanding of social innovation and entrepreneurship as a means to address social problems. We make the most of major public engagement campaigns, such as the Social Innovation Jam Road Show, the SI CEO Competition for Tertiary Students and the Social Innovation Video Competition for Secondary Students, to raise awareness of and interest in social innovation among the public, in particular young people, in order to encourage wider participation and inspire more innovative ideas for addressing the issue of poverty. In addition, we also share on our digital platform the stories and insights of "Hong Kong Social Innovators", with a view to encourage more people to participate in social innovation.

Public engagement activities held by the SIE Fund to promote social innovation

Chapter 3:
Full Range of Support for Retirement Protection

“Retirement Protection Forging Ahead” public engagement exercise

3.1 Amongst the Commission on Poverty's (CoP) key areas of work in the past is retirement protection. In May 2013, at CoP’s invitation, the consultancy team led by Professor Nelson Chow undertook a study on the future development of retirement protection. The report was published in August 2014. In the Policy Address announced in January 2015, the Chief Executive (CE) commissioned the CoP to launch a public consultation exercise on retirement protection and set aside $50 billion to underline the Government’s determination and commitment to improving retirement protection for elderly persons.

3.2 Commenced in December 2015, the six-month public engagement exercise entitled “Retirement Protection Forging Ahead” ended in June last year. During this period, the Government and CoP organised or took part in 110 public engagement activities of different types to listen to the views of various sectors, including public forums, meetings of the House Committee and other sub-committees of the Legislative Council (LegCo), 18 District Councils, meetings of government advisory boards and other bodies, and stakeholders’ meetings, etc. It is worthy to mention that as retirement protection is a cross-generation issue, the CoP Chairman-cum-Chief Secretary for Administration, the Secretary for Labour and Welfare and some members visited schools and discussed with secondary students wide-ranging topics from retirement protection to ageing population, redistribution of public resources, taxation system, etc. Through these school activities and on-line broadcast arrangement, we were able to reach out to over 15 000 students in 130 schools.

3.3 We received a total of 18 365 written submissions by the close of the public engagement exercise. Of these, 16 830 were submitted in seven templates that allowed respondents to provide supplementary views; all were from supporters of universal pension. An independent consultant was commissioned to collate and analyse the public views. The consultant’s report, following discussion by the CoP, was released in December 2016.

Major public views

3.4 Two major issues dominated the discussion during the public engagement exercise, namely universal versus targeted pension, and the Mandatory Provident Fund (MPF) System in particular the issue of "offsetting".

Universal versus targeted pension

3.5 The debate was polarised between the two approaches. Supporters of universal pension saw retirement protection as a basic right, a due recognition of elderly persons' contribution to society and a social necessity to improve financial and psychological well-being in old age. They attacked the existing social security and MPF pillars and argued that universality had the advantages of 100% coverage, no stigmatisation and simple administration. It could also offer immediate benefits to elderly persons and alleviate the family burden of young people as universal pension would offer basic protection to their parents. With the monthly pay-out set at a modest level of some $3,500 per elderly person (rather than pegging it to the pre-retirement income), the scheme would be sustainable if it was funded jointly by Government, employees and employers.

3.6 Some supporters of targeted pension questioned the financial sustainability of universal pension, while some considered it not equitable as needy elderly persons were given the same uniform rate as the rich ones. They argued that limited public resources should be used prudently by targeting assistance towards those in need. Only thus could we maintain the sustainability of our public finance against a rapidly ageing population without having to raise taxes to such an extent that would undermine Hong Kong's competitiveness. A balance should also be made in deploying public resources to meet the financial and non-financial (medical, long-term care, etc.) needs of elderly persons as both social security and in-kind services are essentially funded by the Government and are in direct competition with one another in the quest for more resources. But many found the proposed $80,000 asset limit for elderly singletons in the simulated "those with financial needs" option in the consultation document unduly low[1].

3.7 It is relevant to note the results of two polls conducted separately and independently by The University of Hong Kong and The Chinese University of Hong Kong during the public engagement exercise. When asked to choose between the universal and targeted approaches, the results were largely a tie. This indicates that notwithstanding the populist appeal of universality in terms of tangible benefits for all, there is a strong body of opinion in the community supporting a targeted approach.

[1] For illustration purpose, we put forth in the "Retirement Protection Forging Ahead" consultation document a simulated "those with financial needs" option proposing to add a higher tier of assistance under the Old Age Living Allowance by providing a higher monthly allowance of $3,230 per person for elderly persons with more financial needs who are eligible for the allowance, such as elderly singletons with assets not exceeding $80,000 (2015 prices).

MPF "offsetting"

3.8 The views from employers and employees were sharply divided. Employers argued that severance payment (SP)/long service payment (LSP) and MPF overlapped in terms of functionality. They pointed out that "offsetting" was a prerequisite for their support for the MPF System back in 1995 (when the MPF legislation was passed) so that employers would not need to pay twice. Abolishing "offsetting" would not only be a breach of the Government's undertaking, but would also increase enterprises' financial burden, especially for small and medium-sized enterprises (SMEs). Some employers were concerned about the need to make provisions for SP/LSP in their company books if "offsetting" was abolished. Others considered that abolition, even if it were indeed pursued, should not take effect retrospectively.

3.9 Employees saw the SP, LSP and the MPF having different functions. Allowing employers to use their MPF contributions for employees to fulfil their SP/LSP statutory obligation was unjust. Early withdrawal defeated the purpose of the MPF which was meant to preserve the contributions to meet retirement needs. From the perspective of promoting the long-term development of the MPF System, some economists supported abolishing "offsetting" on grounds that "offsetting" caused leakage and impeded "full portability", both being incompatible with the objectives of helping the System enhance economies of scale and promoting competition among MPF trustees so as to drive the fees lower.

3.10 Some academics proposed or supported replacing SP/LSP with unemployment insurance (UI). Trade unionists, however, opposed the idea as the UI was only payable upon unemployment. Unionists argued that SP/LSP had a multitude of functions such as compensation for job loss, protection against dismissals, etc., which were not contingent on unemployment. Hence the two termination benefits could not be substituted by UI and must be retained, lest it would be a major retrograde step in labour rights. Considering that the SP/LSP, in particular LSP, did in fact have a retirement protection purpose, some respondents proposed that the SP/LSP entitlement could be curtailed in the event of abolishing "offsetting". Whilst arguing for preserving the present "offsetting" arrangement, some respondents proposed that employers' and employees' contribution rates could be increased alongside a Government's contribution to employees' MPF accounts but the additional contributions should not be subject to "offsetting".

Other views

3.11 Some suggested that the payment rates, asset limits and other application arrangements of the CSSA Scheme should be reviewed (such as the requirement that applicants will need to apply on a household basis and the arrangement for the relatives concerned (e.g. children) to make a declaration on whether they provide elderly persons who apply for CSSA on their own with financial support (the so-called "bad son statement")). Views were also expressed that the application thresholds of other social security schemes (viz. Old Age Living Allowance (OALA), Old Age Allowance (OAA) and Disability Allowance (DA)) should be relaxed or payment rates be raised.

3.12 Apart from the "offsetting" arrangement, there were criticisms against other aspects of the MPF System, including inadequate protection (particularly for those earning less than $7,100 a month who are not required to make contributions to their MPF accounts), high fees, fluctuating investment returns, lack of protection for non-workers, cumbersome administration, etc. Some also revived the suggestion of having the MPF centrally managed by the Government or a public body.

3.13 There was support for providing tax incentives and/or matching contribution to encourage individuals to save more for themselves and families including non-working spouse. Suggestion was also made to encourage family support for elderly parents through tax concession. Some raised questions about the Reverse Mortgage Programme and put forth suggestions on how to improve the Programme to make it more attractive. Some acknowledged the need for exploring a public annuity scheme and other financial tools (such as Silver Bond of longer tenor) to help elderly persons manage the longevity and investment risks by converting their assets into a steady stream of income.

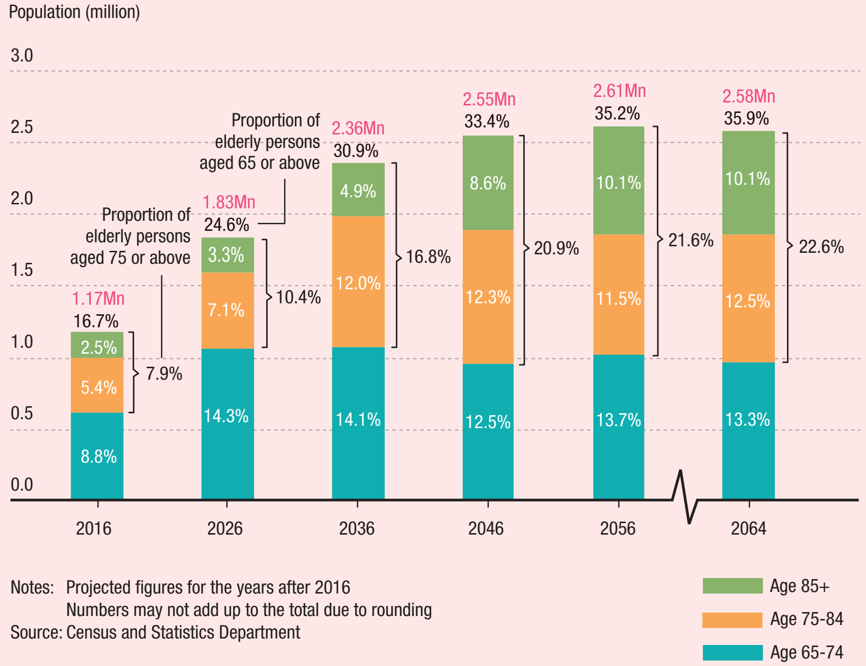
3.14 The above analyses show that public views were highly diversified, particularly over the two principles of "regardless of rich or poor" and "those with financial needs". Even amongst supporters of the same policy direction, there were differing views on practical issues. As pointed out by the independent consultant's report, more views were inclined to support the "regardless of rich or poor" principle. However, on the key issue of financing arrangement, there was wider difference in people's views on whether additional financial burden should be borne by individuals. Some supported the idea, while others objected. Some were willing to contribute to the new scheme by means of transfer of MPF contributions. But some considered that the transfer was tantamount to additional taxes. The report also pointed out that many people shared the need for more elderly persons to benefit from the existing retirement protection arrangements. Specific proposals included raising the asset limits of OALA. On the "offsetting" issue, the report considered that the Government should balance the interests of employers and employees with a view to minimising the impact on employers while enabling employees to benefit the most. There was also a need for some form of commitment from the Government in the process.

3.15 The report recommended demonstrating fairness in the retirement protection policy in three aspects. First, public resources should be used in a prudent manner. To improve retirement protection, many people preferred using the fiscal reserve first before contemplating to raise taxes or increase contributions. Different stakeholders also tended to support policy measures with greater cost effectiveness. Secondly, the system should allow the needy to get more, while those who can afford should pay more. There was broad-based support amongst different stakeholders that we should make our best endeavours to provide support for elderly persons with limited assets and low income. Redistribution will be more equitable by varying the resources to be distributed having regard to the different needs of individuals. If the community as a whole has to pay more, allowing those who can afford to contribute more will be conducive to reducing societal conflicts. Thirdly, the policy should be sustainable. Many people expressed concern about whether they would still be able to enjoy the protection in old age after making contributions while they were young, or whether one could benefit after paying taxes for social welfare.

Demographic, fiscal, elderly poverty, etc. considerations

3.16 Hong Kong's population is rapidly ageing. As our baby boom generation is retiring, the workforce is expected to shrink from 2018 onward and we expect Hong Kong's economic growth to decelerate in the period ahead. Elderly persons (i.e. aged 65 or above) currently make up 17% of our population. Some 20 years later, one in every three Hong Kong people will be an elderly person. Our population is also living longer. The "old-old" (persons aged 75 or above) is the fastest growing demographic group (see Diagram 3.1). Three out of five persons turning 65 today will live to 85 or beyond and two of them to at least 90. Many Hong Kong people will experience periods of retirement that will extend to two, or even three, decades.

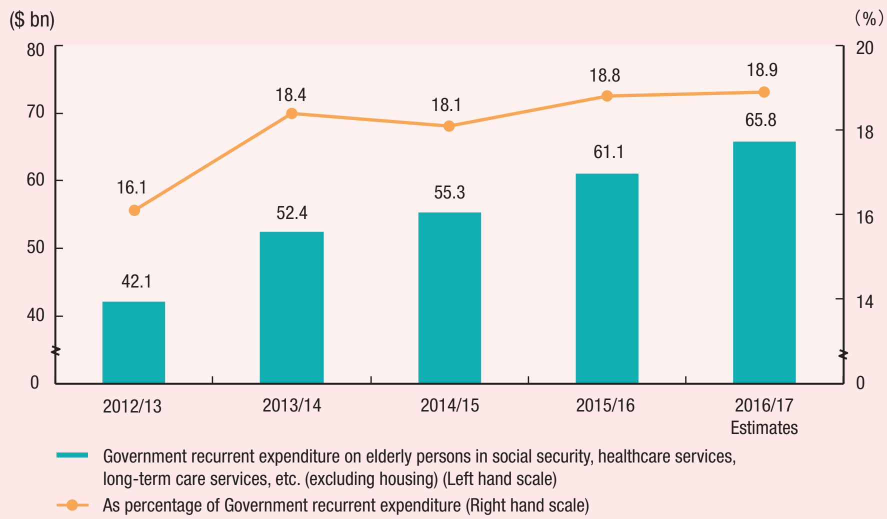
Diagram 3.1: Elderly population will increase from 17% to 31% in next 20 years, with more prominent increase for elderly aged 75 or above



Notes: Projected figures for the years after 2016
Numbers may not add up to the total due to rounding
Source: Census and Statistics Department

3.17 Getting the community better prepared for the ageing challenge is one of the priorities of this term of the Government. When we assumed office in July 2012, we took decisive action to introduce in April 2013 the means-tested OALA to enhance financial assistance for needy elderly persons. At present, 37% of our elderly population are receiving $2,565[2] a month to supplement their living expenses. With the introduction of OALA and other in-kind support such as medical and residential nursing care, community and home care, transport subsidy, medical vouchers, etc., the annual elderly budget increased from $42.1 billion in 2012-13 to $65.8 billion in 2016-17. The growth of 56% in recurrent elderly expenditure in the past four years is impressive and so far affordable (see Diagram 3.2). But moving forward, the heavy strain on public finances cannot be ignored when the elderly population keeps growing and the room for raising taxes is limited if we are to maintain Hong Kong's economic competitiveness.

Diagram 3.2: With elderly care as this Government's policy priority, past 4 years saw impressive growth of elderly recurrent expenditure by 56%



Source: Relevant policy bureaux

3.18 The Working Group on Long-Term Fiscal Planning appointed by the Financial Secretary released a study in early 2014, projecting that even under a No Service Enhancement scenario, a structural deficit could occur in 2029-30 given the ageing of our population and a maturing economy. The threat of a structural deficit would hit earlier and harder under other scenarios including service enhancements.

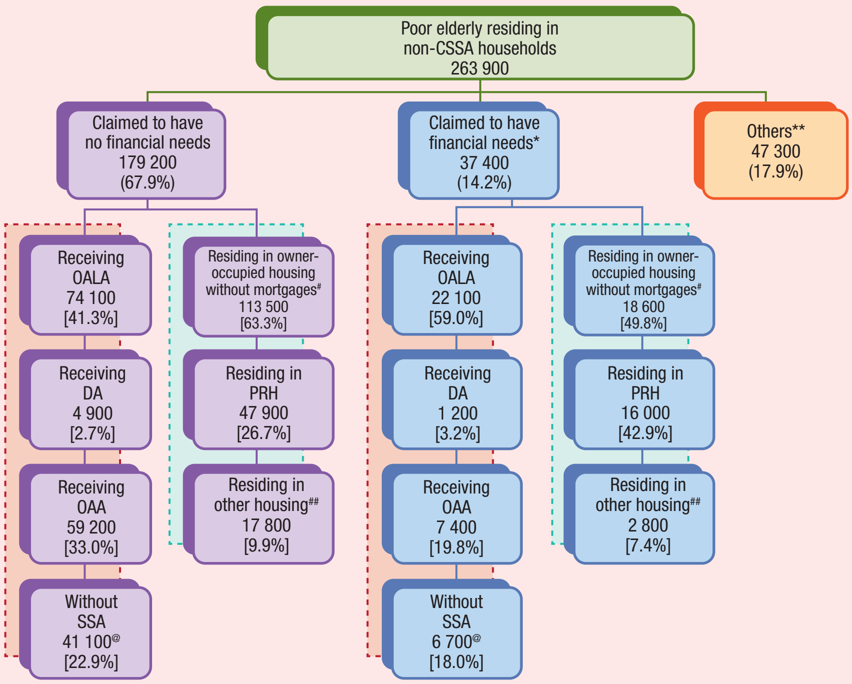
3.19 Notwithstanding the above, the elderly poverty problem cannot be ignored. But we should have a good grasp of the actual situation before effective measures can be formulated to address the problem. Based on the official poverty line that measures poverty using household income only, after recurrent cash intervention, Hong Kong had 308 500 poor elderly persons in 2015. The elderly poverty rate of 30.1% was higher than

[2] The OALA payment will increase from $2,495 per month to $2,565 per month with effect from 1 February 2017.

other age groups of below 18 (18.0%) and 18-64 (10.1%). But included in the poor elderly population were some "income-poor, asset-rich" elderly persons. We need to take a closer look at the figures to understand the elderly poverty situation.

3.20 Amongst the some 0.31 million poor elderly persons, about 44 000 or 14% were from CSSA households and their "recognised needs" had been duly met. Of the remaining 263 900 poor elderly persons who were from non-CSSA households, about 200 000 or 77% with different levels of needs were receiving OALA, OAA or DA and were already taken care of under the existing social security system; whilst there were about 180 000 elderly persons or more than two-thirds claiming that they had no financial needs. About 40 000 elderly persons claimed having financial needs, including more than 20 000 or around

Diagram 3.3: More than two-thirds of poor elderly residing in non-CSSA households claimed having no financial needs



Notes: ( ) Figures in parentheses denote the proportion of the relevant elderly out of all poor elderly residing in non-CSSA households

[ ] Figures in square brackets denote the proportion of the relevant elderly out of poor elderly residing in non-CSSA households who claimed to have no/have financial needs

(#) Including subsidised sale flats and owner-occupied private housing without mortgages and loans

(##) Including subsidised sale flats (with mortgages or loans), and private housing (including tenants and those owner-occupied housing with mortgages or loans)

(*) Including those who claimed to have financial needs but did not pass the income and asset tests / did not satisfy residence requirements / were not willing to apply, and the elderly whose application for CSSA was in progress

(**) Including the elderly who refused to respond

(@) Among the poor elderly living in non-CSSA households claiming to have no financial needs and not receiving any Social Security Allowance (SSA), 6 400 persons (15.6%) were elderly aged 70 and above. For those claiming to have financial needs, the corresponding figures were 700 and 10.7%

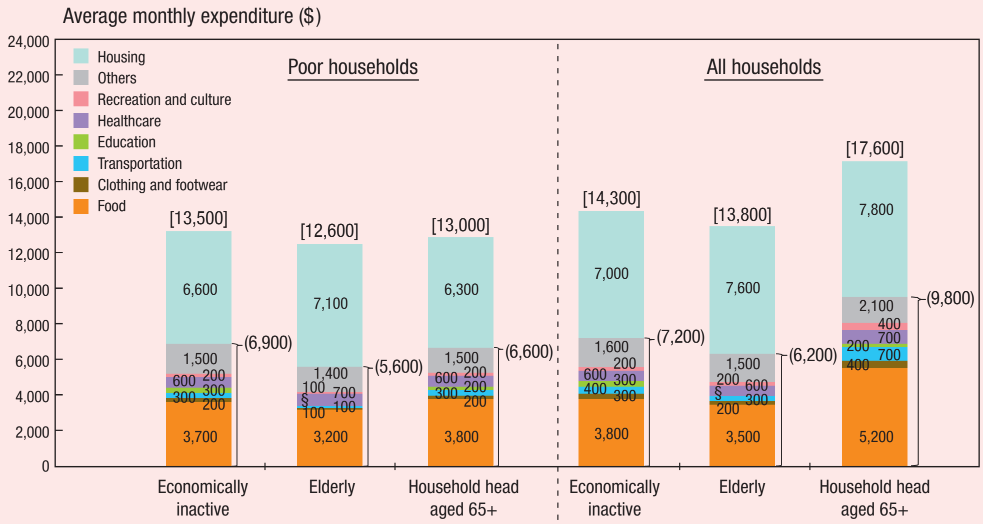
Based on poverty statistics after recurrent cash intervention

Source: General Household Survey, Census and Statistics Department

60% being OALA recipients. Of these 40 000 elderly persons, about 93% were residing in public rental housing (PRH) or self-owned properties without mortgage payment. These elderly persons did not face much financial pressure in housing expenditure (see Diagram 3.3).

3.21 The expenditure pattern data provides an additional dimension to understand the poor households, supplementing the income-based poverty analyses. For the three household groups with generally higher income-poverty rate, namely economically inactive, elderly households and households with elderly heads, the average monthly total expenditures of their poor households ranged from $12,600 to $13,500 in 2015. Their expenditure levels were not visibly lower as compared with the corresponding groups of all households, while sharing similar expenditure patterns (see Diagram 3.4). Conceivably, many of these households were retired elderly households, and were defined as income-poor due to generally low or even no regular incomes. The per capita expenditures of these households defined as income-poor were not low, which ranged from $6,300 to $7,600, and their household expenditures were generally higher than income. Further analysing households with expenditures exceeding income among non-CSSA economically inactive and elderly poor households, the majority of such households reported having economic

Diagram 3.4: Many poor households in the three selected groups were retired elderly households and their expenditure levels were not visibly lower than the corresponding groups of all households



	Economically inactive	Elderly	Household head aged 65+	Economically inactive	Elderly	Household head aged 65+
No. of households*	233 600	122 900	180 900	462 900	296 000	579 900
Average household size	2.0	1.7	2.1	1.7	1.5	2.2
Per capita expenditure ($)	6,900	7,600	6,300	8,500	9,400	7,800

Notes: [ ] Figures in square brackets denote the average monthly expenditure of relevant households
( ) Figures in parentheses denote the average monthly non-housing expenditure of relevant households
(§) Less than $50
(*) Estimates from the General Household Survey

Source: 2014/15 Household Expenditure Survey, Census and Statistics Department resources other than income for maintaining their living standards. On a broad-brush estimation, non-CSSA economically inactive poor households with expenditure persistently exceeding income for more than one year and claiming to cope with the situation with assets accounted for about 30% of all non-CSSA economically inactive poor households. These analyses reflect that the living standards of some elderly persons defined as income-poor may not be visibly lower when measured in terms of expenditure.

Government's comprehensive policy response

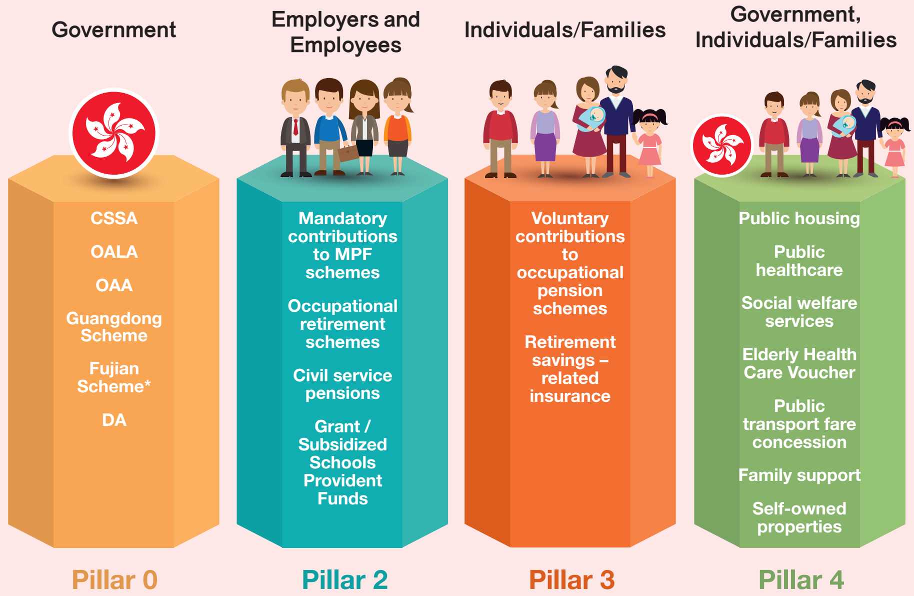
3.22 This is the first time since 1997 the community has studied this important subject of retirement protection. After taking into account public views received and ensuring the sustainability of our financial commitment, we have devised a package of measures to strengthen each of the four pillars. This is in line with the commitment of this term of the Government to build a just and compassionate society and represents our comprehensive response to the public aspiration for enhancing retirement protection for elderly persons. Regarding the proposals to strengthen the publicly-funded social security and public services pillars, after obtaining LegCo's funding approval, the Government will put in place the enhancements to the OALA and healthcare services as soon as possible. As for enhancing the MPF pillar, the proposal of abolishing progressively the "offsetting" arrangement will continue to be contentious. In the next three months, we will explain our proposal to stakeholders and listen to their views, striving to seek consensus. Our aim is to put the finalised proposal to the Executive Council (ExCo) for decision before end June this year. For the voluntary savings pillar, we will explore the feasibility of a public annuity scheme, etc. to help elderly persons manage longevity risk. Details are set out below.

Reinforcing the multi-pillar system

3.23 Adopting the World Bank's multi-pillar approach, Hong Kong's retirement protection system has four pillars comprising a multi-tiered social security system (pillar 0), the MPF and other occupation-based retirement savings schemes (pillar 2), voluntary savings (pillar 3), as well as public services, family support and personal assets (pillar 4). The design is underpinned by the principles of sharing the responsibility of retirement protection amongst individuals/families, employers and Government, as well as addressing the varying needs of elderly persons through multiple channels[3] (see Diagram 3.5). Specifically, individuals accumulate retirement savings for themselves and their families through pillars 2 and 3, employers make contributions for their employees under pillar 2, while Government's commitment is made through pillars 0 and 4 – pillar 0 provides practical financial assistance and serves as the safety net of last resort for elderly persons unable to provide for themselves, and pillar 4 provides public services for elderly persons covering housing, healthcare, long-term care, transport, etc. The two pillars are fully funded by public money.

3 As compared with the World Bank's five-pillar framework, Hong Kong does not have pillar 1, i.e. the publicly-managed mandatory contributory plans. Some community organisations saw a need filling this gap by the universal pension. However, the World Bank has not indicated that a comprehensive retirement protection system should have all five pillars in place. Rather, the World Bank emphasises that there is no one-size-fits-all solution. Each place should build or refine its system specific to its own circumstances.

Diagram 3.5: Hong Kong's multi-pillar model advocates shared responsibility and multiple channels complementing one another



Note: (*) Fujian Scheme is a new initiative proposed in 2017 Policy Address
Source: Relevant policy bureaux

3.24 In terms of overall design, Hong Kong's system is akin to that in Australia and Denmark which have been internationally recognised as being more sustainable in face of the ageing challenge. These three economies all have a privately-managed, mandatory, individual account-based contributory system (pillar 2) to compel savings throughout one's working life and to preserve such savings for very long-term investment before withdrawal upon retirement. The pillar 2 is also complemented by a largely targeted social security pillar (pillar 0) to take care of the vulnerable elderly persons.

3.25 In Hong Kong, both pillars 0 and 2 have very high coverage rates – the social security pillar (pillar 0) is taken up by over 70% of our elderly population, while the MPF (pillar 2) currently with 2.8 million scheme members is covering almost all of the working population not protected by other occupational retirement schemes. These two pillars (pillar 0 and pillar 2) are effective platforms through which further improvements to retirement protection can be made. Hence, we consider that Hong Kong should continue to adopt a multi-pillar retirement protection model and strengthen each of the existing pillars with a view to enhancing the adequacy and coverage of retirement protection while maintaining the affordability and financial sustainability of the system. The directions for making enhancements should aim at –

(a) enhancing the multi-tiered social security pillar to more effectively perform the function of a safety net and complement the MPF and other pillars by providing better financial support for needy elderly persons;

(b) improving the public services pillar to better meet the healthcare needs of elderly persons;

(c) enhancing the MPF pillar to more effectively increase scheme members' overall retirement savings and maximise the protection for them; and

(d) making the voluntary savings pillar more assured by exploring financial products to help elderly persons make good use of their assets to increase the stability of their post-retirement investment income.

While offering financial assistance, the Government also attaches great importance to providing in-kind support that can meet the needs of elderly persons, such as –

Almost 30 000 elderly persons are using the government-subsidised home and community care services

Nearly 30 000 elderly persons are receiving government-subsidised residential care services

Every day, some 970 000 trips are made by elderly persons under the $2 transport fare concession scheme

Enhancing the multi-tiered social security pillar

3.26 This pillar currently covers about 72% of our elderly population, comprising CSSA (12%), OALA (37%), OAA (19%) and DA (3%) (see Diagram 3.6). The take-up rate of those aged 70 or above is even higher at 87%. We have chosen OALA as the platform for enhancing the social security pillar because OALA is the most effective recurrent cash policy for tackling elderly poverty[4]. OALA, relative to CSSA, is simple in design and more relaxed in terms of income and asset requirements, particularly the arrangement of allowing applications to be made on an individual or couple basis. Separately, while maintaining the requirement

[4] In 2015, OALA reduced the elderly poverty rate by 7.6 percentage points, lifting 78 000 elderly persons out of poverty. Its poverty alleviation impact is even better than CSSA.

Diagram 3.6: Various social security schemes covering over 70% of elderly persons

Scheme*	Income/asset limit and amount of monthly payment#			Number of recipients aged 65 or above (% of elderly population aged 65 or above as at end June 2016)	2016-17 Estimate ($billion)
	Income limit ($)	Asset limit ($)	Amount of monthly payment ($)		
CSSA	Monthly payment to meet "recognised needs"@	Elderly singletons: 47,000 Elderly couples: 70,000	5,869^	144 101 (12%)	9.85
OALA	Elderly singletons: 7,750 Elderly couples: 12,620	Elderly singletons: 225,000 Elderly couples: 341,000	2,565	434 912 (37%)	13.51
OAA	N.A.	N.A.	1,325	226 509 (19%)	3.46
Guangdong Scheme**	Elderly singletons: 7,750 Elderly couples: 12,620	Elderly singletons: 225,000 Elderly couples: 341,000	1,325	15 550 (-)##	0.27
Normal DA	N.A	N.A	1,695	20 754 (2%)	0.42
Higher DA			3,390	15 044 (1%)	0.60
Elderly persons not receiving social security benefits			N.A.	330 980 (28%)	-
Total elderly population (as at end June 2016):				1 172 300 (100%)~	Total: 28.11&

Notes: (*) Different schemes have different age requirement. Under the existing CSSA Scheme, elderly persons are defined as persons aged 60 or above. OAA applicants must be aged 70 or above, while elderly persons aged 65 or above can apply for OALA and the Guangdong Scheme. DA is assessed on the degree of disability of the applicant without any age requirement

(#) Unless otherwise specified, the income and asset limits as well as payment rates are those that come into effect on 1 February 2017

(@) The total assessable monthly income of the applicants and their family members must be lower than the monthly "recognised needs" under the CSSA Scheme

(^) On a broad-brush estimation, the average CSSA payment for the elderly singletons aged 60 or above (excluding recipients of the Portable CSSA Scheme) was $5,869 in 2016

(**) The income and asset limits for the Guangdong Scheme are applicable to applicants aged 65 to 69 only

(##) The percentage is not available as most recipients of the Guangdong Scheme are not included in the Hong Kong resident population

(~) Percentages may not add up to 100% due to rounding

(&) If the one-off relief measures are included, the total amount of expenditure should be around $30.14 billion (CSSA: $10.38 billion; OALA: $14.61 billion; OAA: $3.75 billion; Guangdong Scheme: $0.29 billion; Normal DA: $0.46 billion; Higher DA:$0.65 billion). Numbers may not add up to the total due to rounding

Source: Social Welfare Department

that applicants under the CSSA Scheme will need to apply on a household basis, we propose to abolish the arrangement for the relatives concerned to make a declaration on whether they provide the elderly persons who apply for CSSA on their own (e.g. an elderly person who does not live with his children) with financial support (the so-called "bad son statement"). As poverty alleviation is not the policy aim of the universal, non-targeted OAA, and DA is not focused on supporting poor elderly persons, we have not proposed any changes to the two allowances in the current exercise. The specific proposals will be explained in detail in ensuing paragraphs.

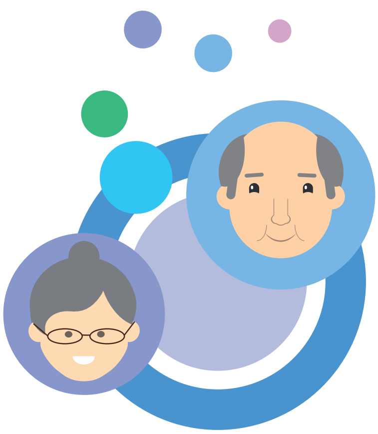
Providing additional targeted support for elderly persons under OALA

3.27 We recommend strengthening the social security pillar by adding a higher tier of allowance under OALA for recipients with fewer assets, and slightly relaxing the existing asset limits to broaden coverage of needy elderly. Specific recommendations include -

(a) adding a higher tier of assistance under OALA by providing a higher monthly allowance of $3,435 per person for elderly persons who are eligible for the allowance and with more financial needs, i.e. elderly singletons with assets not exceeding $144,000 or elderly couples with assets not exceeding $218,000; and

(b) relaxing the existing asset limits for OALA[5], from $225,000 to $329,000 for elderly singletons and from $341,000 to $499,000 for elderly couples, to benefit more elderly persons with financial needs.

The higher tier of assistance of $3,435 per month is pegged to the standard rate for able-bodied/50% disabled CSSA elderly singleton recipients[6]. The OALA income limits (i.e. $7,750 per month for singletons and $12,620 per month for couples) will remain unchanged[7].



[5] The OALA asset limits for elderly singletons and elderly couples will increase from $219,000 and $332,000 to $225,000 and $341,000 respectively with effect from 1 February 2017.

[6] The standard rate for able-bodied/50% disabled CSSA elderly singleton recipients will increase from $3,340 per month to $3,435 per month with effect from 1 February 2017.

[7] The OALA monthly income limits for elderly singletons and elderly couples will increase from $7,580 and $12,290 to $7,750 and $12,620 respectively with effect from 1 February 2017.

3.28 The proposal will improve the adequacy and coverage of OALA. In terms of adequacy, based on administrative records of the Social Welfare Department (SWD), about 81% of existing OALA recipients (or 365 900)[8] would receive the higher monthly payment of $3,435, about one-third more than the existing $2,565 (with effect from 1 February 2017). In terms of coverage, it is crudely estimated that another 127 400 elderly persons would likely become eligible for OALA under the relaxed asset limits. From the above estimation, the coverage rate of OALA could increase from existing 37% to 47%. Diagram 3.7 summarises the key features of our proposal as compared with the simulated "those with financial needs" option pitched at the $80,000 asset limit for elderly singletons in our consultation document. The number of elderly beneficiaries and estimated annual average increased expenditure are about two times those of the simulated option –

Diagram 3.7: Proposed enhanced OALA's elderly beneficiaries and increased expenditure about two times those of simulated option

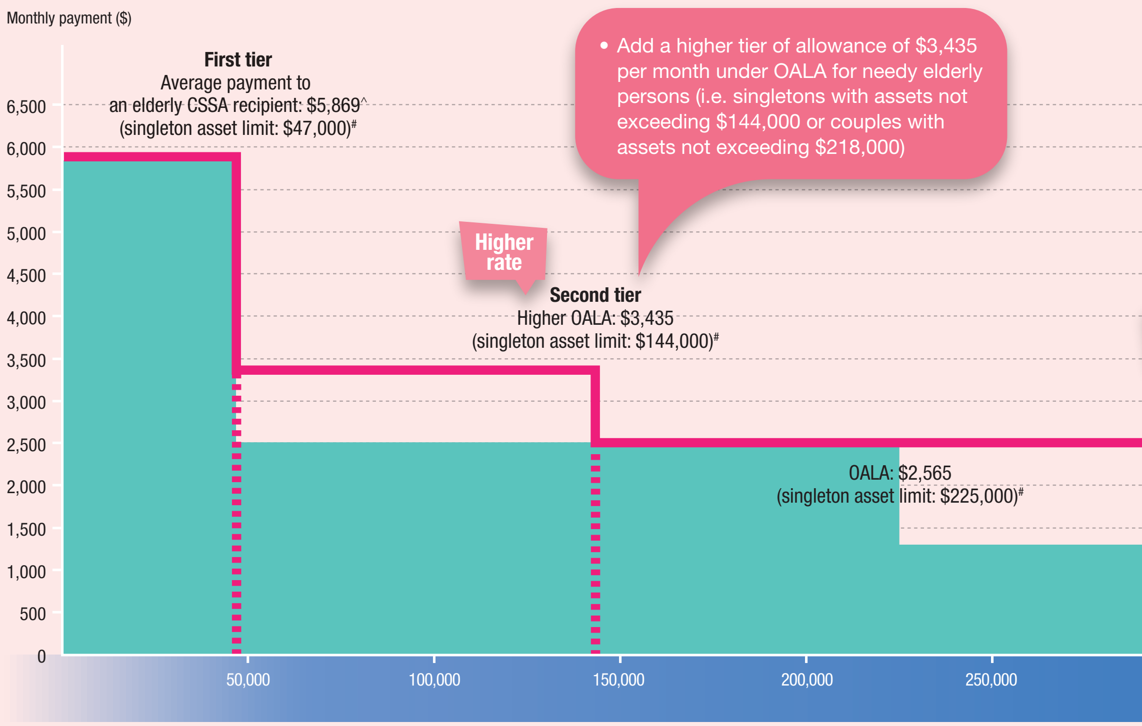
		Asset limits for elderly singletons^	Assistance per elderly recipient per month	Coverage (% of elderly population)	Number of beneficiaries from enhancements	Estimated annual average increased expenditure up to 2064
Existing OALA~		≤ $225,000	Uniform rate: $2,565	37%	-	-
Simulated option	Enhanced	≤ $80,000#	$3,230#	37%*	251 800*	$5.1 billion#
	Basic	≤ $210,000#	$2,390#			
Government's proposal	Enhanced	≤ $144,000	$3,435	47%**	493 400**	$11.3 billion
	Basic	≤ $329,000	$2,565			

Notes: (^) There are separate asset limits for elderly couples
(~) Rates to take effect on 1 February 2017
(#) At 2015 prices, as in the consultation document
(*) No enhanced coverage but with higher payment for 60% of existing OALA recipients. Figures are 2015-based, as in the consultation document
(**) Coverage could increase to 47%, plus higher payment for 81% of existing OALA recipients in 2017

[8] The number of recipients and coverage rates in this paragraph are crude estimates for 2017.

3.29 The proposed OALA enhancements can further strengthen the social security pillar so that it can perform well the function of a safety net, supporting those poor elderly persons not adequately protected by the MPF or other pillars. It is crudely estimated that the proposed enhancements could benefit about 500 000 elderly persons or around 40% of the elderly population in the first year of implementation. Counting in CSSA and non-means tested OAA and DA, the social security pillar is expected to cover about 910 000 elderly persons or around 74% of elderly population in the first year of implementation (see Diagram 3.8).

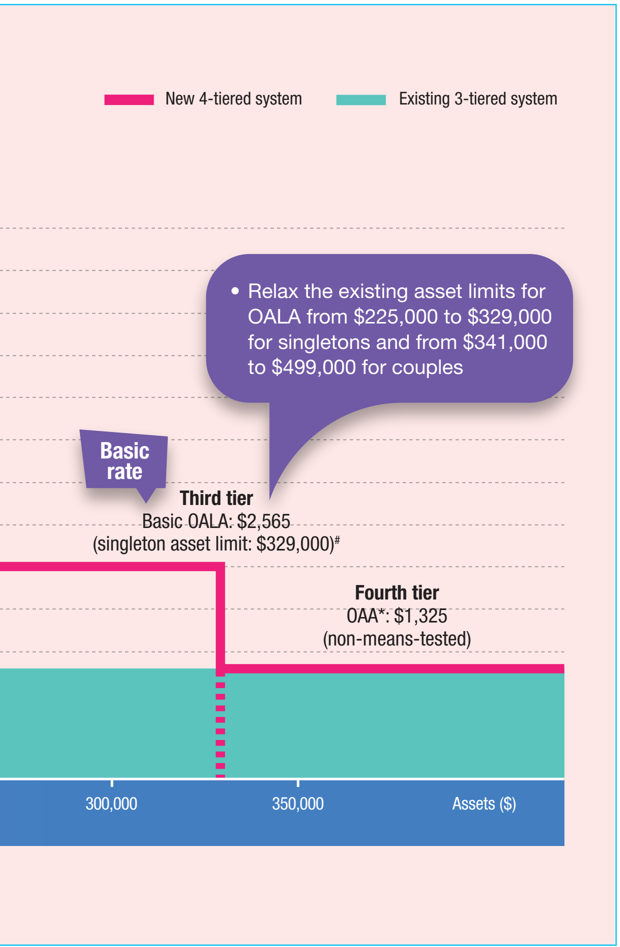
Diagram 3.8: During the first year of implementation, the social security pillar will cover about 910 000 elderly persons or around 74% of elderly population



Notes: (#) There are different asset limits for families (CSSA) or couples (OALA)
(^) Based on a broad-brush estimation, the average monthly CSSA payment for singleton recipients aged 60 or above in 2016 was $5,869
(*) OAA is available for elderly persons aged 70 or above

Universal pension not pursued

3.30 Different versions of universal pension proposals have emerged but their content is highly similar. For illustration purpose, the simulated "regardless of rich or poor" option in our consultation document was modelled on the payment level and disbursement criteria (including its interface with other social security schemes) proposed in the "Demo-grant" proposal by Professor Nelson Chow[9]. During the public engagement exercise, advocates of universal pension mostly referred to the proposal from a group of social work academics instead (the academics' proposal). The academics' proposal suggests providing all elderly persons a uniform rate of $3,500 per month (2016 prices), to be financed by tripartite contributions from Government (upfront injection of $100 billion (2016 prices) in the first year of implementation and elderly social security expenditure which would otherwise be spent under the existing system), employers and employees' contributions (transfer of half of the MPF contributions (a total of 5%)), as well as businesses (additional 1.9 percentage points profit tax for firms with assessable profits exceeding $10 million).



[9] Professor Chow suggested giving all elderly persons a uniform monthly rate of $3,230 (2015 prices). It was proposed to be funded by Government's upfront injection of $53.8 billion (2015 prices) in the first year of implementation and elderly social security expenditure which would otherwise be spent under existing system, as well as a new old age payroll tax payable by employers and employees.

3.31 After considering different arguments put forward during the public engagement exercise, we have decided to uphold the Government's stance expressed in the consultation document that Hong Kong should not go down the route of universal pension because of the following considerations –

(a) providing universal benefits to elderly persons irrespective of their means is conceptually attractive. There are now several universal schemes for our elderly population such as the OAA of $1,325 per month (payment rate to take effect on 1 February 2017), and the Elderly Health Care Voucher of $2,000 per annum for persons aged 70 or above, and $2 public transport fare concession for persons aged 65 or above. Affordability is a critical limiting factor in our decision on whether further universal programmes should be created. In this respect, the above three programmes are expected to cost about $3.5 billion, $1.3 billion and $0.9 billion in 2016-17 respectively, significantly lower than the increased expenditure of the academics' proposal of $26.9 billion (2016 prices) in the first year. The increased expenditure of the latter will rise sharply with the growing elderly population to $63.2 billion in 2064 (2016 prices)[10];

(b) universal pension proposals are essentially pay-as-you-go (PAYG) in nature, i.e. the pension of the current cohorts of retirees is financed by the current working population[11]. International literature[12] and overseas experience show that an ageing population has a profound impact on the sustainability of universal pension funded on PAYG basis. In recent decades, many places including our neighbours Japan and Taiwan have taken drastic measures to rescue their pension schemes by deferring the retirement age, reducing pension entitlements, increasing contribution rates, etc. To build a PAYG-type universal pension scheme at a time when our shrinking working population will have to support a larger number of retirees for a longer period of time will expose our public finance to considerable financial risk;

(c) the proposal of transferring half of the MPF contributions (a total of 5%) to fund universal pension is considered not feasible. The transfer from individual contribution accounts to a central pool is tantamount to taxation and because of the MPF contribution cap of $30,000, the taxation would be regressive in nature – higher-income earners will contribute a smaller percentage of their salary than lower-income earners but both groups get the same monetary amount upon retirement. This has caused controversy even among supporters of universal pension. Some have raised the fundamental question of whether individual MPF contributions

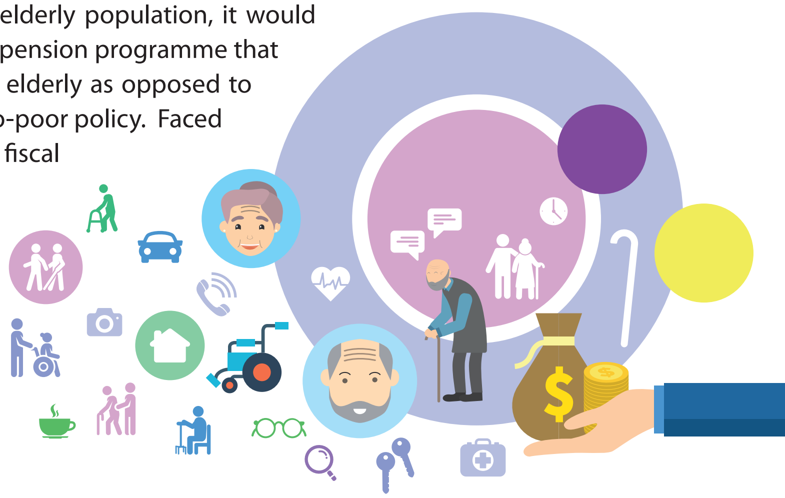
[10] The increased expenditure refers to the difference between the overall elderly social security expenditure with the academics' proposal adopted and that of the existing social security system (i.e. no enhancement proposal adopted) under the framework of the Working Group on Long-Term Fiscal Planning.

[11] The academics have proposed to increase significantly Government's one-off injection to $100 billion in an attempt to strengthen the partially pre-funded arrangement. However, as Hong Kong's population is ageing fast and the labour force is expected to decline continuously after 2018, the academics' proposal will result in structural deficit very soon (with the first year of structural deficit in the 13th year after implementation) and need to operate on a PAYG basis. Hence, the proposal is still PAYG in essence.

[12] For example, the Organisation for Economic Co-operation and Development (OECD) pointed out repeatedly in their publications including "OECD Pensions Outlook 2014" and "Pensions at a Glance 2015" that ageing population will create acute challenge for the financial sustainability of PAYG-based retirement protection schemes.

should be transferred to fund pension collectively. In terms of system design, the transfer would seriously reduce the retirement savings that can be accumulated for employees under the MPF System and delay the attainment of economies of scale that could help drive fees further down. To build a new pillar (pillar 1) at the expense of destabilising or undermining other pillars is highly debatable; and

(d) empirical evidence from international studies suggests that universal pension schemes may be much less cost effective in terms of poverty alleviation impact than targeted pension because most resources go to the non-poor. Indeed, as shown in our consultation document, some 80% of the additional resources under the universal approach would go to the less needy elderly persons who are not receiving any cash allowance or just receiving the non-means tested OAA. Given the extensive social security programmes already in place with a broad coverage of over 70% of the elderly population, it would be difficult to justify adding a pension programme that will benefit the more affluent elderly as opposed to strengthening the existing pro-poor policy. Faced with our demographic and fiscal challenges, we consider that a more sustainable approach is to target resources to help the needy.



Enhancing the CSSA application arrangement for elderly persons

3.32 CSSA is designed to meet the basic needs of the recipients as the safety net of last resort for those facing financial hardship (including elderly persons). The CSSA-related issues that attracted much discussion during the public engagement exercise can be categorised into two broad groups as follows-

(a) one-household rule; the so-called “bad son statement” arrangement; CSSA elderly recipients living in private elderly homes; and

(b) elderly CSSA payment rates and asset limits.

Retaining one-household rule and abolishing the so-called "bad son statement" arrangement

3.33 The requirement of applying for CSSA on a household basis and the arrangement for the relatives (e.g. children) concerned to make a declaration on whether they provide elderly persons who apply for CSSA on their own with financial support (the so-called "bad son statement") are two separate matters. The one-household rule has been in place since the introduction of the CSSA Scheme (formerly Public Assistance Scheme) in 1971. It is the backbone of the CSSA Scheme requiring CSSA applicants to apply on a household basis if they are living with family members and others (who do not have any employment relationship) who share the same household facilities. Under the one-household rule, the resources of elderly persons and their family members who are living under the same roof are aggregated in the income and asset tests for eligibility assessment. Under special circumstances (e.g. the elderly persons have poor relationship with their family members living under the same roof), SWD may exempt the elderly persons concerned from the requirement of applying for CSSA on a household basis.

3.34 On the other hand, for elderly persons who apply for CSSA on their own, apart from reporting their financial situation through completing the applications forms, SWD requires their children or other relatives to submit a declaration (the so-called "bad son statement") on whether they have made financial contribution to the elderly applicants and, if so, provide details on their financial contribution. The financial support from relatives, if any, will be calculated as "assessable income" and taken into account in adjusting the CSSA entitlement of the elderly persons concerned. This arrangement is also applicable to other non-elderly persons who apply for CSSA on their own.

3.35 CSSA has been providing appropriate assistance to individuals with the most financial needs (including elderly persons). Having regard that CSSA is designed to be the safety net of last resort and that members of the same family should support one another, we will maintain the requirement for elderly persons living with their families under the same roof to apply on household basis. CSSA recipients (including elderly persons living with their families) should first use their own economic resources, including financial support from all family members living under the same roof, other relatives, etc. to cope with their basic necessities.

3.36 However, we do not totally dismiss the perception held by some stakeholders and concern groups that the declaration arrangement in paragraph 3.34 above may have deterred needy elderly persons from applying for CSSA on an individual basis. Having examined the application process, we recommend abolishing the arrangement for the relatives concerned to make a declaration on whether they provide the elderly persons who apply for CSSA on their own (e.g. an elderly person who does not live with his children) with financial support (the so-called "bad son statement"). The information should be submitted by the elderly applicants only.

Pilot Scheme on Residential Care Service Voucher for the Elderly

3.37 Some elderly recipients are reportedly arranged to move out of their homes and be admitted to residential care homes so that they could apply for CSSA on their own. At present some 80% of the elderly persons living in private elderly homes are receiving CSSA of about $8,400 a month (2016 prices) on average. Some private homes would only peg their services to the CSSA rate, providing less than satisfactory service. We acknowledge that this is a highly unsatisfactory state of affairs but the solution does not lie with exempting CSSA elderly applicants from the one-household rule as suggested by some respondents. Further, to do so would undermine the integrity of the one-household rule which is equally applicable to other categories of CSSA recipients. Instead, we will shortly be launching the Pilot Scheme on Residential Care Service Voucher (RCSV) for the Elderly which intends to experiment with the concepts of "money-following-the-user" and co-payment according to the financial positions of elderly persons.

3.38 Under the proposed Pilot Scheme on RCSV, CSSA elderly recipients may choose to leave CSSA and opt for the voucher. The voucher value would be pegged to the required service standard (estimated to be $12,416 per month), and would be substantially higher than the CSSA payment rate, and elderly homes are required to fulfil the staffing and space requirements of EA1 elderly homes and provide a standard service package comparable to the service scope of subsidised places offered under the Enhanced Bought Place Scheme. This arrangement allows elderly persons to select a quality-assured elderly home and enjoy wider choices of service providers. Under the Pilot Scheme, elderly recipients (only the asset and income of the elderly persons concerned will be considered) opting for RCSV in lieu of CSSA will receive full government subsidy without the need for self-payment. They may also apply for OALA, OAA or DA at the same time.

Maintaining CSSA payment rates and asset limits unchanged

3.39 Eligible elderly persons receive a higher standard rate than able-bodied adults (which covers basic living), special grants (such as glasses, dentures, diets and appliances recommended by medical practitioners, transport fares to/from hospitals/clinics, and medical examination fee for recipients in elderly homes, etc.) and supplements to meet special needs. While the average monthly CSSA payment for elderly singletons is $5,869 (2016 prices), the actual monthly payment may be as high as over $10,000 depending on the elderly persons' health status and needs. All CSSA recipients including elderly persons are also entitled to free public hospital and clinic services. The payment rates as well as asset and income limits are subject to adjustment every year, having regard to the prescribed price indices. We do not propose any changes to the parameters such as the payment rates nor to definitions of assets and income and their thresholds.

Redefining CSSA old age to 65

3.40 Under the existing CSSA Scheme, recipients aged 60 or above are eligible for elderly CSSA benefits. They are entitled to higher payment rates as mentioned above and are not required to work or join employment assistance whilst on CSSA. In view of the improved life expectancy of the population and a policy of encouraging the young-olds to join the workforce[13], we recommend raising the eligibility age for elderly CSSA from 60 to 65. Elderly persons aged between 60 and 64 who are receiving CSSA before the new policy takes effect will, however, not be affected, except when they re-apply for CSSA after having left the CSSA net, in which case the revised definition of old age will apply to them.

Improving the public services pillar

3.41 Some elderly persons have expressed during the public engagement exercise that housing and healthcare are two of their major worries in old age. In 2015, more than half of our elderly population are living in public housing (i.e. PRH and subsidised home ownership housing), while another one-third are residing in self-owned private housing units[14]. We will continue to monitor the housing situation of the elderly persons.

About 570 000 elderly persons are living in public housing including the public rental housing

Extending the coverage of the medical fee waiver system

3.42 With rising medical costs and healthcare being the largest expenditure in old age, we consider that there is a case for making medical fee waiver more accessible so that needy elderly persons can enjoy free public healthcare services. At present, all CSSA recipients (including elderly persons) are issued a "Certificate of CSSA Recipients (for Medical Waivers)". With this certificate, they can receive free medical treatment at public hospitals and clinics without the need for further assessment. Non-CSSA patients who cannot afford public medical fees, albeit heavily subsidised, would need to apply for waivers. Applicants who come within the asset and income limits would be qualified for full or partial waivers.

[13] Having reviewed our demographic challenges, the Government announced in the 2015 Policy Address a package of population policy measures. One of the key strategies to rescue the decline in labour force is to promote a longer working life territory-wide by deferring the retirement age. Specific measures include raising the civil service retirement age from 60 to 65 for new recruits in respect of civilian grades joining the Government from June 2015 and amending the relevant regulations to relax the age limit for security guards from 65 to 70 with effect from December 2015. With the example set by Government, other bodies such as the Hospital Authority and Housing Authority have taken measures to defer the retirement age of their employees.

[14] Breakdown of the elderly population in 2015 by housing status is as follows –

	Elderly persons	%
PRH	388 200	34.8
Subsidised home ownership housing	182 600	16.3
Private housing	454 300	40.7
of which: owner-occupiers	*379 600*	*34.0*
non-owner occupiers	*74 700*	*6.7*
Elderly homes and others	92 100	8.2
Total:	1 117 100	100.0

Note: Numbers may not add up to the total due to rounding
Source: Census and Statistics Department's General Household Survey

3.43 The existing utilisation rate of the medical fee waiver mechanism by non-CSSA elderly patients is low[15]. To alleviate the financial burden of non-CSSA poor elderly persons in medical expenses, we recommend extending the automatic medical fee waiving arrangement to older and more needy OALA recipients (i.e. OALA recipients aged 75 or above and with assets not exceeding $144,000 for singletons and not exceeding $218,000 for couples), to be on par with the provision for CSSA recipients. We expect that about 140 000 OALA recipients will benefit in the first year of implementation.

Enhancing the Elderly Health Care Voucher Scheme

3.44 Launched in 2009, the Elderly Health Care Voucher (EHCV) Scheme has become increasingly popular with a rising take-up rate. The annual voucher amount per eligible person is $2,000, subsidising elderly persons aged 70 or above to use private primary care services. As at end December 2016, there were over 640 000 EHCV users representing a take-up rate of about 83%.

About 640 000 elderly persons have made use of the Elderly Health Care Voucher to receive private primary care services

3.45 During the public engagement exercise, there were suggestions that the eligibility age should be lowered to benefit more elderly persons. Apart from relieving the pressure on the public healthcare system, EHCV also helps instil a stronger sense of health promotion and better primary care amongst elderly persons. We therefore recommend lowering the EHCV's eligibility age from 70 to 65. The proposal is expected to increase the number of beneficiaries by some 400 000 in the first year of implementation.

[15] In 2015-16 for example, of the 156 200 elderly patients having their medical fees waived, the majority (95%) were CSSA recipients and only 5% were non-CSSA.

Enhancing medical services for elderly persons

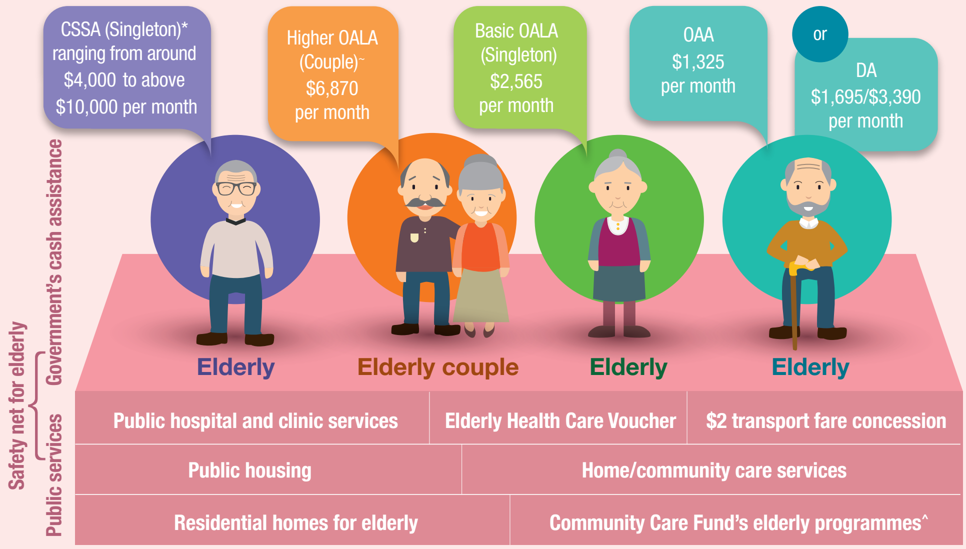
3.46 Elderly persons are and will remain the major users of public healthcare services. In 2015-16, around 15% of the population was aged 65 or above. The elderly persons accounted for around half of all patient days and 40% of the general out-patient attendances in the Hospital Authority (HA). The total resources spent on elderly patients amounted to around 47% of HA's cost of services in 2015-16. We will continue to press ahead the ten-year hospital development blueprint of $200 billion announced in the 2016 Policy Address. To improve the medical services for elderly persons and other patients and reduce waiting time, we will provide HA additional recurrent resources of $2 billion with effect from 2017-18. Apart from meeting the additional cost of extending medical fee waivers to selected OALA recipients in paragraph 3.43 above, HA will continue to enhance elderly services in areas of chronic disease management, rehabilitation support, strengthening the Community Geriatric Assessment Team services for the terminally ill patients in residential care homes for the elderly as well as improving access to services including accident and emergency, in-patient, general or specialist out-patient, surgical, endoscopy and diagnostic imaging services in 2017-18. Moreover, we will increase the

About 830 000 elderly persons receive public healthcare services of the Hospital Authority

Apart from the programme for dementia elderly mentioned in paragraph 3.46, the Community Care Fund is funding other elderly programmes, including the Elderly Dental Assistance Programme (EDAP). The EDAP has been extended to OALA recipients by phases since September 2015 manpower of the Elderly Health Service of the Department of Health with a view to enhancing the capacity of and the services provided by its Elderly Health Centres (EHCs) and Visiting Health Teams, which include strengthening the provision of health promotion activities, providing priority to needy elderly persons to use the services of the EHCs, and allocating more first-time health assessment quotas to new members, etc. We will also pilot a new model of medical-social collaboration to take care of elderly persons with mild or moderate dementia in the community under the Community Care Fund from February this year. We will provide free or subsidised 13-valent pneumococcal conjugate vaccine under the Government Vaccination Programme and Vaccination Subsidy Scheme respectively to strengthen elderly persons' immunity against pneumococcal infection.

Subsidised benefits for elderly

Elderly receiving cash allowance based on needs; most public services available for all elderly



Notes: (*) The payment for CSSA elderly recipients is determined by their respective recognised needs and includes standard rate, supplement(s), rental allowance and other special grant(s). Items of special grant include: special diet allowance, medical items, emergency alarm system for elderly recipients, telephone charges, glasses, dental treatment, etc.

(~) Higher OALA for singletons elderly is $3,435 per month

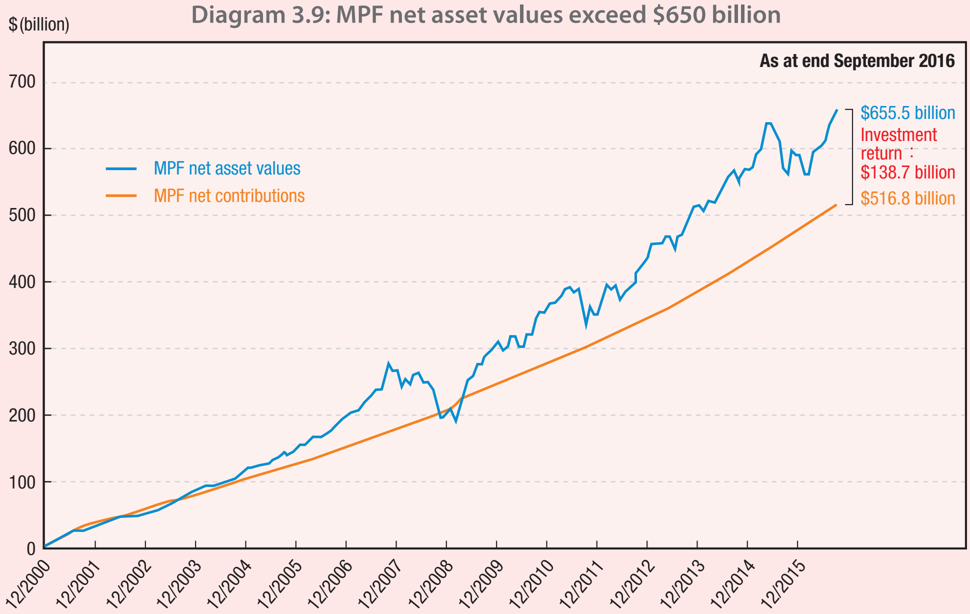
(^) Including allowance for carers of elderly persons, dental services for OALA recipients, dementia community support services for elderly, etc.

Enhancing the MPF pillar

3.47 The MPF System is a key pillar of our retirement protection system. Launched in 2000, it is a privately-managed, defined contribution, individual account-based system that links one's post-retirement benefits with his contributions during the working life and only allows withdrawal of benefits upon the age of 65 or under "offsetting" and few other circumstances. After some 16 years of benefit accumulation, the total net asset value of the MPF grew to $655.5 billion as at September 2016, including investment returns of $138.7 billion after fees (see Diagram 3.9). It is worthy to note the substantial rise in MPF voluntary contributions (rising from $4.1 billion in 2007 to $15.4 billion in 2015), including the special voluntary contributions (rising from $0.56 billion to $6.67 billion over the same period) which are not tied to employment. This tends to suggest the growing confidence in the MPF System by some employees, notwithstanding the various criticisms levelled against the System over the years (see Diagram 3.10).

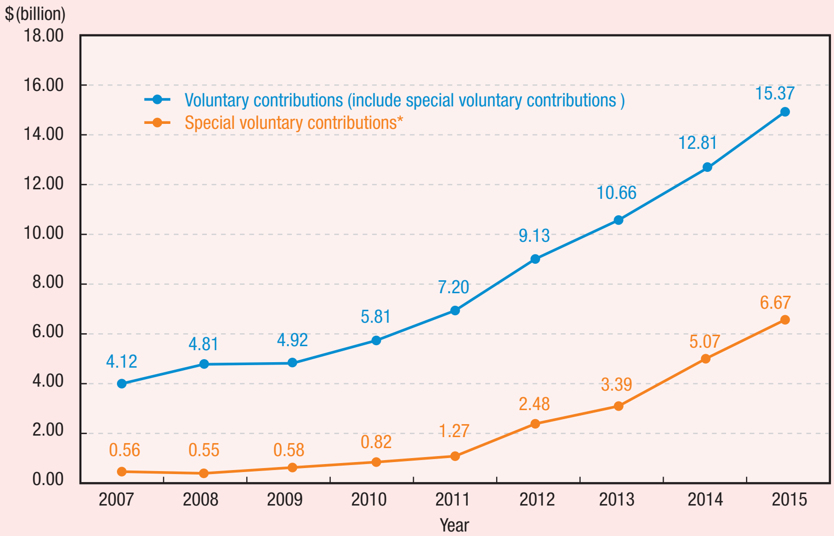
3.48 However, it was clear during the public engagement exercise that the MPF System has yet to establish itself as a trusted retirement savings system. Its inadequacy was often cited by advocates to back up the call for universal pension. The most contentious issue was the "offsetting" arrangement.

Diagram 3.9: MPF net asset values exceed $650 billion



Source: MPF Authority

Diagram 3.10: Voluntary contributions rise substantially as some employees' confidence in MPF improved



Note: (*) Voluntary contributions include general voluntary contributions and special voluntary contributions. Special voluntary contributions refer to voluntary contributions paid directly by a relevant employee to the trustee. Unlike general voluntary contributions, these contributions are non-employment related, i.e. contributions do not go through the employer, and withdrawal of accrued benefits is neither tied to employment nor subject to preservation requirements

Source: MPF Authority

3.49 Pursuant to the Employment Ordinance (EO), an employee is entitled to SP/LSP upon employer-initiated dismissal actions (other than those owing to employees' own fault), resignation due to old age or ill health as well as death in service, subject to the employees meeting the qualifying years of service (two years for SP and five years for LSP) and the continuous employment requirement[16]. As prescribed in the Mandatory Provident Fund Schemes Ordinance (MPFSO), an employer may use the accrued benefits from his MPF contributions to settle part or all of SP/LSP payable under the EO (the "offsetting" arrangement).

[16] Under the EO, an employee engaged under a continuous contract is defined as one who has been employed under a contract of employment by the same employer for four weeks or more and has worked for 18 hours or more each week.

3.50 Diagram 3.11 summarises the "offsetting" claims in 2014 and 2015 as collected by the MPF Authority –

Diagram 3.11: 2014 and 2015 "offsetting" claims

Year	MPF benefits withdrawn for "offsetting"	Number of claims	Number of employers involved	Average "offsetting" amount per employer	Number of employees involved	Average "offsetting" amount per employee
2014	$3.006 billion	45 400	15 600 (5.7%)	$192,800	43 500 (1.7%)	$69,200
2015	$3.354 billion	47 300	14 400 (5.2%)	$233,000	45 300 (1.8%)	$74,100

Note: Figures in ( ) denote the percentage of enrolled employers and employees subject to the "offsetting" arrangement
Source : MPF Authority

In both years, the split of the "offsetting" amount between SP and LSP cases was about 55:45. Among the claims, almost 60% of employers involved and 70% of employees involved were related to SP "offsetting" cases. "Offsetting" cut across a wide range of industries, including wholesale/retail/import and export trades, catering, construction, etc. Employers with 50 employees or less had the largest share of cases (55%). Meanwhile, 16% of "offsetting" cases came from larger employers with more than 1 000 employees.

Abolishing the "offsetting" arrangement

Historical background of SP/LSP and "offsetting"

3.51 The SP was introduced in 1974 to compensate employees dismissed owing to redundancy. Unionists' subsequent complaint about the restrictive scope of SP led to the introduction of the LSP in 1986 to cover dismissals not because of redundancy nor employees' own faults. The LSP was also developed as a practical alternative to unfair dismissal legislation by providing a statutory requirement for an employer to make a payment to a dismissed employee based on his age and length of service. Two years later, LSP was expanded beyond employer-initiated dismissals to cover "involuntary" resignations owing to old age, ill health and death. In 1997, the EO was amended to provide, as part of the terminal payments, pro-rata LSP to employees with less than five years' service in case of unreasonable dismissals or unreasonable and unlawful dismissals. The calculation of SP and LSP entitlements is based on the same statutory formula, that is two-thirds (66.7%) of the last month's wage for each year of service. The monthly wage for calculating SP/LSP is capped at $22,500, while the maximum amount of SP/LSP payable to an employee is $390,000[17]. There is no limit on the number of reckonable years of service.

[17] For an employee earning more than $22,500 in his last month of service, he will get at most $15,000 ($22,500 x 2/3) per year of service. For him to receive the maximum amount of $390,000, his years of service should be no less than 26 years ($390,000 / $15,000).

3.52 "Offsetting" provisions originated in the EO when SP and LSP were introduced and before the MPF System was put in place, allowing employers to use gratuities attributable to employees' years of service or contributions made for employees under retirement schemes to offset SP and LSP payable. The MPFSO which was enacted in 1995 and came into effect in 2000 allows an employer to offset his SP/LSP payment against the accrued benefits from his MPF contributions towards his employee's account. While the "offsetting" arrangement is often seen as a compromise to secure employers' support for establishing the MPF System in 2000, speeches made by officials during the debate on the draft MPF legislation in the LegCo in 1995 showed that there was also the consideration of not requiring employers to pay twice (i.e. making both MPF contributions and SP/LSP payment). Recognising that the functions of SP and LSP may have somewhat overlapped with the retirement protection functions of the MPF System, officials then acknowledged the need for examining the interface between SP/LSP and the MPF System in the longer term.

3.53 The following points about SP/LSP and "offsetting" may be relevant in considering the way forward –

(a) after years of evolution, it has been widely accepted that the SP and LSP have the following embedded functions and features –

    (i) financial relief for loss of employment caused by dismissals owing to redundancy;

    (ii) compensation for long-term service in case of other dismissals and three "involuntary" resignations;

    (iii) protection against dismissals; and

    (iv) retirement protection.

    Besides, the right to claim SP/LSP is triggered by employers' dismissal decisions (save the three "involuntary" resignations which only accounted for about 15% of the LSP cases), with the payment obligations borne by employers as well. Employers are required statutorily to pay SP/LSP rather speedily[18] and the payment is not contingent upon whether the employee will become unemployed after leaving the last job. Given their multiple functions and unique characteristics, it would not be practically possible to replace the SP/LSP with any single substitute;

[18] According to the EO, the SP shall be paid not later than two months after the receipt of a notice from an employee claiming for SP. The LSP is to be paid within seven days of the dismissal.

(b) as explained above, not all employees are eligible for SP/LSP upon termination of employment. According to the MPF Authority, there were on average 44 000 employees during 2014-2015, who were paid SP/LSP and subject to the "offsetting" arrangement[19]. Less than 2% of the total number of employees enrolled under the MPF System and about 5-6% of employers were involved each year[20] (please refer to Diagram 3.11). Indeed, according to a territory-wide survey conducted by the Census and Statistics Department, in 2012, about 60% of job changers resigned voluntarily and hence were mostly not eligible for SP/LSP. Of the remaining 40% who left jobs involuntarily or upon completion of contracts, etc., about 30% (about 40 000) worked for the previous employers for two years or more and hence might be eligible for SP/LSP. We acknowledge businesses' concern about increased cost burden especially for SMEs involved in labour-intensive industries. But to what extent the industries and the economy as a whole will be affected by the abolition of the "offsetting" arrangement should be assessed objectively in an evidence-based manner; and

(c) in many "offsetting" cases, the accrued benefits from employers' MPF contributions are not enough to settle the SP/LSP in full, with the shortfall to be met by employers out-of-pocket. The shortfall arises owing to the difference in the entitlement formula and wage cap of SP/LSP and employer's MPF contributions[21], the wage increment during the employment period, the investment performance of the MPF System, etc. According to the MPF Authority, in both 2014 and 2015, on average employers' out-of-pocket portion was about 17% of the total SP/LSP entitlement. A large portion of employers involved in "offsetting" are already paying out-of-pocket, on top of their MPF contributions to meet the SP/LSP payment.

[19] Separately, according to a crude estimation based on the claim records of the MPF Authority and Survey on Employment Benefits conducted by the Census and Statistics Department, in 2014 there were some 11 000 employees whose SP/LSP was fully met by employers out-of-pocket without resorting to "offsetting".

[20] According to the MPF Authority, the median year of service for those employees involved in SP/LSP claims in 2015 was six years.

[21] The SP/LSP formula is two-thirds (66.7%) of the last month's wage for each year of service. The employers' MPF contribution formula is 60% of one month's wage for each year of service. Assuming that the wage remains unchanged throughout the employment period and putting aside investment return of MPF contributions, there will be a discrepancy of 6.7 percentage points between the SP/LSP entitlement and MPF contributions every year. The wage cap for SP/LSP calculation is $22,500 while that for MPF contributions is $30,000.

Policy arguments for abolishing the "offsetting" arrangement

3.54 "Offsetting" is a thorny issue and there is very little common ground between employers and employees. Having considered the arguments from both sides and the long-term development of the MPF System, we consider that there are strong policy grounds for abolishing "offsetting" for the following reasons –

(a) the MPF is designed to accumulate retirement savings for the working population. Its value lies in preservation so as to subject the contributions to very long-term investment to capitalise on the compounding effect to keep the savings growing. Contributions from employers and employees should be strictly preserved for retirement protection, particularly when the total contribution rate of 10% (or 5% for those employees who earn less than $7,100 per month and who are not required to make MPF contributions) is considered low and can only provide basic protection upon retirement. Early withdrawal of MPF benefits for non-retirement protection purposes, such as "offsetting", goes against the original intent;

(b) "offsetting" causes leakage of benefits from the MPF System. Between July 2001 and December 2015, MPF benefits withdrawn for "offsetting" amounted to $28 billion or about 29% of the total benefits withdrawn in the same period. The leakage reduces the size of the pillar and lengthens the process for the MPF System to enhance economies of scale which is much needed to drive fees further down. For the 43 500 and 45 300 employees subject to "offsetting" in 2014 and 2015 respectively, on average, about 94% of the employers' accrued benefits were withdrawn for "offsetting". About 67% of the affected employees had the employers' accrued benefits completely withdrawn. By leaving little or virtually no retirement benefits for low-income earners who are the most vulnerable group in need of protection, "offsetting" has weakened the retirement protection function of the MPF System and further eroded public confidence in its ability to protect employees' savings;

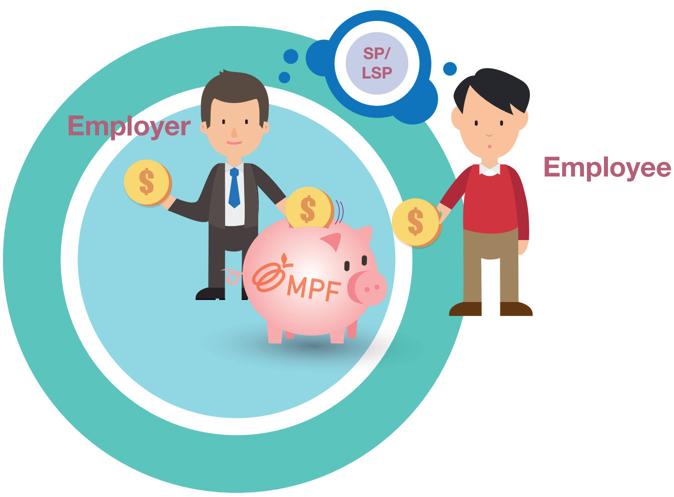
(c) "full portability" is our long-term goal for the MPF System. But "offsetting" has been widely seen as an impediment to "full portability". Under existing "semi-portability" arrangement, only 70% of the MPF net assets or $450 billion is portable. "Full portability" allows employees to move the accrued benefits derived from current employers' contributions to a trustee and scheme of their choice, in addition to the above 70%. Extending employees' right of choice to the accrued benefits derived from current employers' contributions is expected to promote market competition among trustees, further driving down the fees of the MPF System. So long as "offsetting" is allowed, employers would unlikely agree to "full portability" or allow employees to have controls over the investment of employers' contributions because if the accrued benefits are not enough to meet the SP/LSP payment owing to investment loss, the difference will have to be borne by employers out-of-pocket; and

(d) notwithstanding its room for much improvement, any fundamental change of the MPF System which has been in existence for some 16 years covering 2.8 million workers is realistically not feasible. Nor is it practical to switch the privately-managed system to a publicly-managed one similar to Singapore's Central Provident Fund. Rather we should take bold steps to enhance the MPF pillar, make it more effective and more robust, with a view to maximising the protection for employees and rebuilding public confidence. Our vision is to have a MPF System that is valued and trusted by Hong Kong people with the ultimate aim of "one member, one account" based on the following roadmap–

    (i) as short-term measures, implementing the Default Investment Strategy (DIS) in April 2017 to address concerns on "high fees" and "difficulty in making choices" and abolishing "offsetting" to pave the way for "full portability";

    (ii) as medium-term measures, developing a centralised IT platform, the eMPF, to simplify the administration of the MPF System, and implementing "full portability"; and

    (iii) as long-term measure, increasing the total contribution rate gradually to a target of at least 15% to enhance retirement protection for the working population.



Guiding principles

3.55 Taking into account the historical background of SP/LSP and "offsetting", we recommend that the arrangement for the abolition of "offsetting" should be subject to the following guiding principles –

(a) the abolition of "offsetting" should take effect from a future date with a "grandfathering" arrangement to smoothen the transition;

(b) we should strike a balance between employers' affordability and employees' benefits;

(c) Government should have a visible role to play in terms of financial commitment but any payments from the public purse should be finite in quantum and duration;

(d) employees currently not covered by MPFSO or other statutory retirement schemes and hence not affected by the abolition of the "offsetting" arrangement would continue to have their SP/LSP entitlements dealt with and calculated in accordance with the existing provisions of the law; and

(e) any unintended policy consequences in terms of creating moral hazards, souring labour relations, massive lay-offs, etc. should be minimised.

Key features of the proposal

3.56 Based on the above principles, we recommend that the "offsetting" package should have three main components: (i) abolition of "offsetting" from a future Effective Date with a "grandfathering" arrangement; (ii) reduced SP/LSP entitlements for employment period from the Effective Date; (iii) Government's time-limited subsidy to phase in employers' SP/LSP obligations in the absence of the "offsetting" arrangement from the Effective Date. Details are as follows-

Effective Date

(a) the Government would specify the Effective Date from which the accrued benefits from employers' mandatory contribution could not be used for "offsetting"[22]; and SP/LSP for employment period from the Effective Date would be calculated according to the new formula (please see point (e) below);

"Grandfathering" arrangement

(b) the accrued benefits from employers' MPF contributions before the Effective Date would be "grandfathered" and frozen. This amount would be kept by the trustee for continuous investment until being used for "offsetting" against the SP/LSP payable, if any, for the employment period before the Effective Date and calculated according to the existing statutory formula on the basis of monthly wage before the Effective Date. If the accrued benefits from employers' contributions fall short of the full SP/LSP payment after "offsetting", employers still have to pay the shortfall before the Effective Date to fulfil their SP/LSP obligations;

[22] The accrued benefits from voluntary contributions made by employers can continue to be used for "offsetting" the SP/LSP expenditure. Of the $3.006 billion and $3.354 billion MPF benefits withdrawn for "offsetting" in 2014 and 2015, about 11% and 10.3% were from voluntary contributions respectively.

(c) balance of the frozen amount (including investment returns) after "offsetting", if any, or after the employee's departure from the current employer (who employs him before the Effective Date) without triggering SP/LSP would be "de-frozen" and transferred to the employee's account and henceforth be subject to employees' full control. The de-freezing process is expected to take years to complete but the frozen amount would dwindle over time with employees' job changing[23];

(d) the "grandfathering" arrangement, which aims to reduce the impact of abolishing the "offsetting" arrangement on employers and employees, is justified mainly on the following two grounds –

  (i) reducing the risk of large-scale dismissals before the abolition of "offsetting" arrangement – in case of no "grandfathering" arrangement, employers will need to bear the full SP/LSP liability arising from past services after the abolition of "offsetting" arrangement. As such liability could no longer be offset against accrued benefits from employers' contributions, employers may dismiss employees particularly long-serving employees, and exercise their rights to offset the SP/LSP expenditure against the accrued benefits from their contributions before the abolition of "offsetting" arrangement in order to cut down subsequent SP/LSP liability; and

  (ii) mitigating the accounting and tax impact in the first year of implementation of the new regime – if "offsetting" was abolished with no "grandfathering" arrangement, there would be significant impact on the profit and loss statement in the first year of implementation. Employers would need to make provisions in the company books for the LSP liability arising from past services as such liability could no longer be netted off against the accrued benefits from their contributions. The provisions made for LSP, which would be booked as expenses, would reduce taxable profit or turn profit into loss. The reduced profit for companies would also have implications on tax revenue;

[23] In cases of job changing without SP/LSP (e.g. voluntary job changing), the frozen amount will be transferred to the employee's account and be subject to the employee's full control upon termination of service.

Reduced SP/LSP entitlements from the Effective Date

(e) the eligibility criteria for SP/LSP payable for the employment period from the Effective Date would remain unchanged (that is, SP/LSP will continue to be payable according to the conditions as currently specified under the EO, including employer-initiated dismissal actions, and resignations owing to old age, ill health and death, if the years of service requirement is fulfilled). However, the payment formula should be revised as follows –

(i) SP/LSP is currently calculated at two-thirds of a monthly wage for each year of service of the employee concerned. The formula is –
last month's wage x 2/3 (i.e. 66.7%) x years of service;

(ii) as explained in paragraph 3.53(c) above, where the accrued benefits from employers' contributions are not enough to meet the SP/LSP liability in full, the shortfall will be met by employers out-of-pocket. On average employers are already topping up from their own pocket (on top of "offsetting") about 17% of the total SP/LSP payable. Translating this into the SP/LSP calculation formula, it means –
last month's wage x 11% (i.e. 17% x 2/3) x years of service; and

(iii) we suggest revising the percentage to 50%, as follows –
last month's wage x 50% x years of service,
to provide a meaningful termination compensation and cushion to help affected employees tide over the short-term financial hardship brought about by dismissal/"involuntary" resignation. It represents 75% of existing entitlements. It means that a dismissed employee with two years of service can receive SP equivalent to one month's wage under the revised formula;

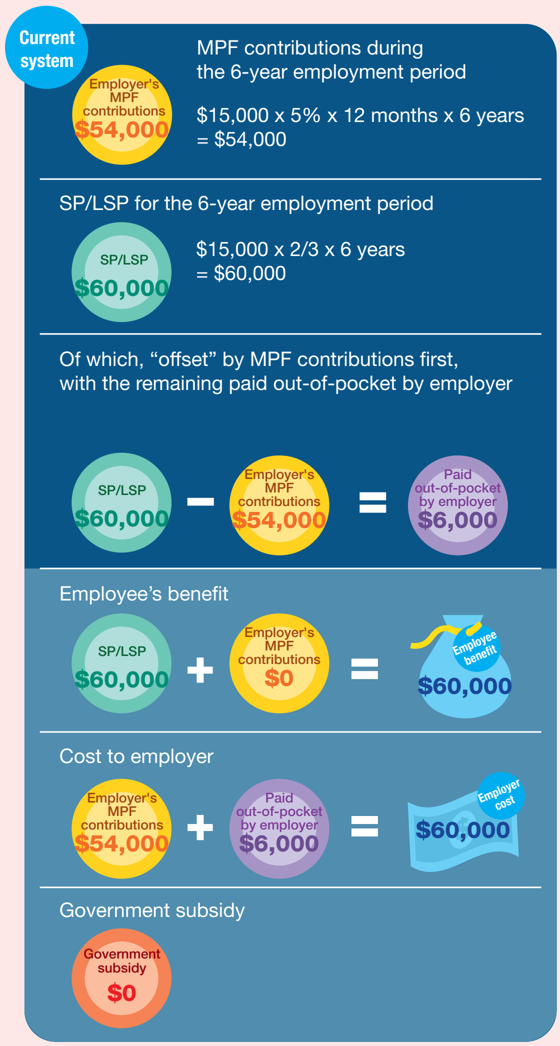
(f) save for the reduced SP/LSP rate, the present SP/LSP arrangement would be preserved. In other words, other parameters in the calculation of SP/LSP such as monthly wage cap and maximum SP/LSP payable will remain unchanged; and

Government's time-limited subsidy

(g) after the abolition of "offsetting" arrangement, even with the SP/LSP entitlement calculated based on the revised formula, i.e. reduced to 50% (1/2 month) from the existing 66.7% (2/3 month), employers will still incur additional costs. We recommend providing time-limited government subsidy on a reimbursement basis to phase in employers' responsibility in the ten-year transitional period with a view to easing their financial burden over a period of time. Specifically, the Government will share the increased SP/LSP burden with employers concerned on a reimbursement basis by way of providing time-limited subsidy according to the proposed ten-year schedule in Diagram 3.12 from the Effective Date in the absence of the "offsetting" arrangement, until the 50% SP/LSP rate is fully taken up by employers at the 11th year.

Diagram 3.12: Proposed time-limited Government subsidy during the ten-year transitional period

Year after the Effective Date	Employers' net SP/LSP payment (as % of monthly wage)	Government subsidy reimbursed to employers (as % of monthly wage)	Total SP/LSP (as % of monthly wage)
1	25%	25%	50%
2	25%	25%	50%
3	30%	20%	50%
4	30%	20%	50%
5	35%	15%	50%
6	35%	15%	50%
7	40%	10%	50%
8	40%	10%	50%
9	45%	5%	50%
10	45%	5%	50%
11	50%	-	50%

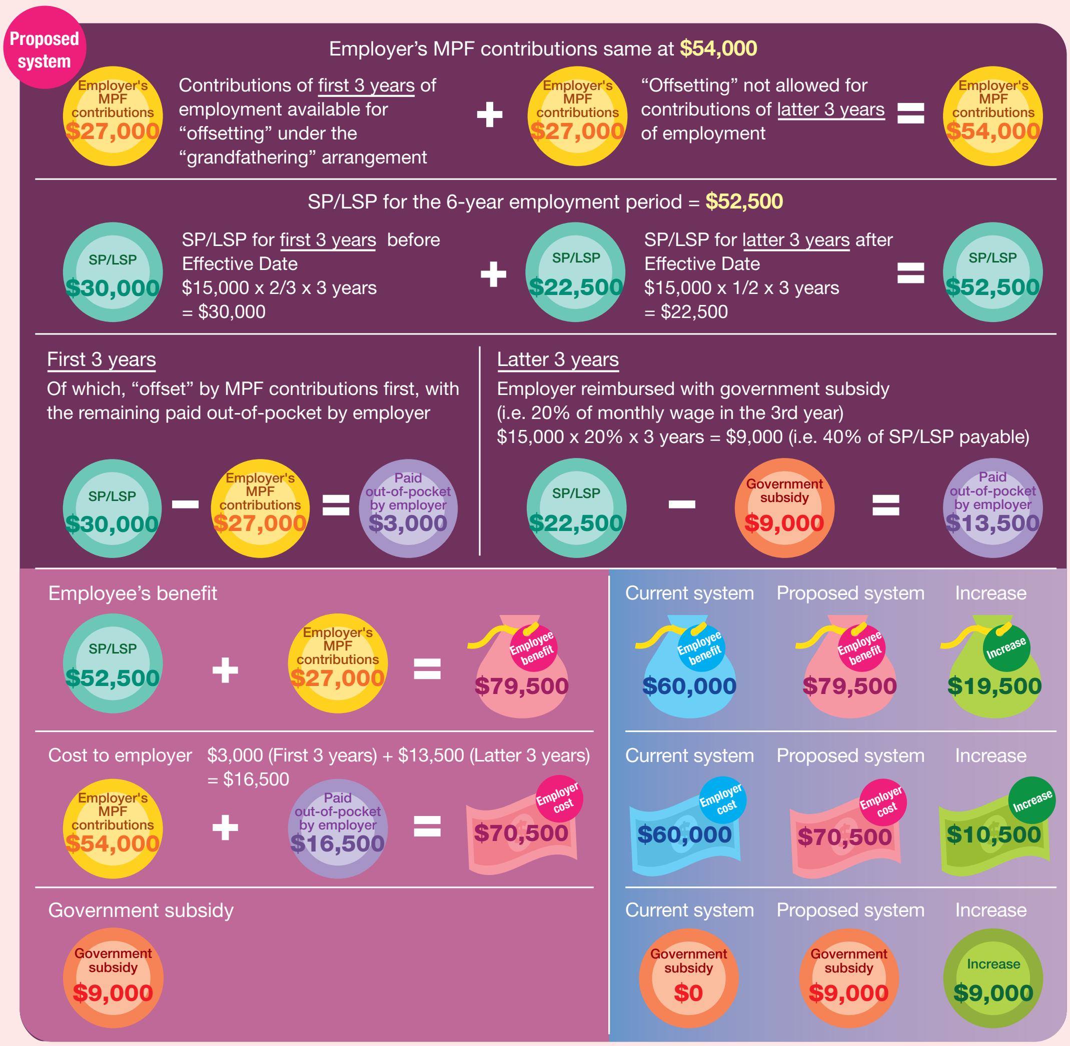


What the proposal means for employees and employers

3.57 As an illustration, take the case of an employee who has been employed for three years before the Effective Date and is dismissed three years thereafter (i.e. three years of service before the Effective Date and three years after). Assuming that his monthly wage remains unchanged at $15,000 throughout the six-year employment period, and putting aside the investment returns of MPF contributions, Diagram 3.13 illustrates the positions of the employee and his employer under the current and the new systems.

3.58 For the employee, his MPF benefits accrued from employer's contribution from the Effective Date will be fully preserved for retirement, while he can also receive a sum ($52,500), albeit lower than that under the existing system ($60,000), to meet his liquidity needs upon termination of employment. The overall monetary amount he can get under the proposal is notably higher ($79,500 versus $60,000).

Diagram 3.13: What the proposal means for employees and employers?



3.59 For the employer, the "grandfathering" arrangement allows him to offset the SP/LSP payment before the Effective Date ($30,000) with accrued benefits from his MPF contributions ($27,000). He only needs to pay $3,000 out-of-pocket. The SP/LSP payment from the Effective Date will be shared between the employer and Government in the ratio of 30%:20% (please refer to the split of the SP/LSP rate in the third year under Diagram 3.12), and the monetary amount is $13,500 and $9,000 respectively. In overall terms, what the employer has to pay under the proposal ($70,500) is substantially lower than the scenario of "paying twice" ($114,000=$60,000+$54,000) and only $10,500 higher than $60,000 under the existing system.

3.60 Recognising that the cost on employers would correspondingly increase after the abolition of "offsetting" arrangement, and with due regard to the affordability of employers, the "grandfathering" arrangement and the time-limited subsidy over a period of ten years proposed by the Government will help alleviate the impact of the policy change on enterprises, thereby mitigating the risk of massive layoffs and the consequential potential shocks to the labour market. With these transitional arrangements in place, it can be envisaged that the additional financial burden on the affected enterprises would be notably smaller in the first few years after the policy change. Crude estimates based on the MPF Authority's administrative records indicate that with the "grandfathering" arrangement and after netting off Government's subsidy, the additional wage bill would be around $111 to $147 million in the first year of implementation, representing about 0.01 to 0.02%[24] of the total wage bill for the economy as a whole in 2015. This means that for the 14 400 involved employers in 2015, on average they will have to pay about $7,700 to $10,200 more.

3.61 The cost impact on enterprises is set to rise progressively over time as employers' share of the SP/LSP rate is successively raised to 50% and as the mitigation effect under the "grandfathering" arrangement diminishes. By the fifth year after the policy change, the total additional wage bill borne by employers would be around $1.4 to $1.9 billion, representing about 0.2% of total wage bill. The additional cost impact would build up further in the ensuing years, reaching around $4.0 to $4.9 billion (equivalent to about 0.5 to 0.6% of the total wage bill) in the 11th year of implementation. As only about 5-6% of enterprises were involved in SP/LSP "offsetting" every year[25], the additional cost so entailed will be borne by these enterprises. As such, in so far as the affected enterprises are concerned, their actual cost impact would likely be heavier than that implied by the above economy-wide cost impact estimates. In particular, sectors with higher incidence

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[24] The additional cost on employers is estimated based on the number of SP/LSP "offsetting" cases from the MPF Authority's administrative records in 2015. Nevertheless, considering that the labour market was in full employment in 2015, with the unemployment rate staying low, if the estimation of additional cost on employers over the next ten years were to be solely based on the number of SP/LSP cases for one single year in 2015, the estimates could likely be underestimated. Statistics on the number of SP/LSP claims and disputes handled by the Labour Department over the past 20 years reveal that the number of such cases was noticeably higher during economic downturn. For prudence sake, the estimates on the additional cost on employers must pay due recognition to the ups and downs in economic cycles. As a stress test, the upper bound of the range estimates is based on the assumption that the number of SP caseloads over a long period of time in the estimation timeframe would on average be 50% higher than that under the state of full employment. The estimates have also taken into account the demographic profile of our labour force in the years to come, in particular the ageing trend of our population, including the possibility of higher LSP incidence as more and more workers will reach the retirement age.

[25] According to the data for 2014 and 2015.

of triggering SP/LSP, or those with thinner profits would be more affected, including also the SMEs which are less capable of coping with additional cost[26].

3.62 The "grandfathering" arrangement purports to allow time for employers to adapt to the policy change and take mitigation measures during the transitional period. All in all, enterprises, having taken into account the specific circumstances of their industry and their cost structure, would adopt different strategies to absorb or mitigate the rise in costs over time. Together with the Government's subsidy over the transitional period, the additional cost entailed from the new measures should be largely manageable for most sectors.

Other related issues

3.63 In abolishing the MPF "offsetting", there are other issues that would warrant our attention-

(a) making provisions for LSP in company books - according to the Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), provisions should be recognised for the LSP liability in financial statements[27]. This is purely an accounting treatment and employers are not required to set aside assets to back up the estimated LSP liability. As we understand from the HKICPA, at present most firms do not need to recognise LSP in the financial statements because the LSP obligations can be offset in full by the accrued benefits from employer's MPF contributions or the shortfall is too small that necessitates recognition. After the proposal is in place, employers should assess the need for recognising the LSP liability in financial statements having regard to the demographic and other assumptions (such as employee turnover and future wage increment) applicable to their firms, the reduced LSP rate of 50%, Government's time-limited subsidy, etc. While the need for recognition may vary between firms, the "grandfathering" arrangement should go a long way towards mitigating the accounting impact in the first year. As mentioned in paragraph 3.56(d)(ii) above, the provisions for LSP will be recognised as an expense in the profit and loss account and are tax deductible;

[26] The crude impact assessment depicted in paragraphs 3.60 to 3.61 has assumed that the new arrangement would be in place in 2017. As a result, the cost impact in the ten years after implementing the measures has made use of the labour force projection in the next ten years (i.e. 2017-2026). All estimates are in 2016 prices. It should be pointed out that as the actual implementation date of the measures is yet to be finalised, the above-mentioned estimates are necessarily crude and broad-brush in nature, mainly for examining the affordability of enterprises under different economic scenarios, with a view to providing data analyses to stakeholders for deliberation. The assessment results, therefore, cannot be regarded as forecast.

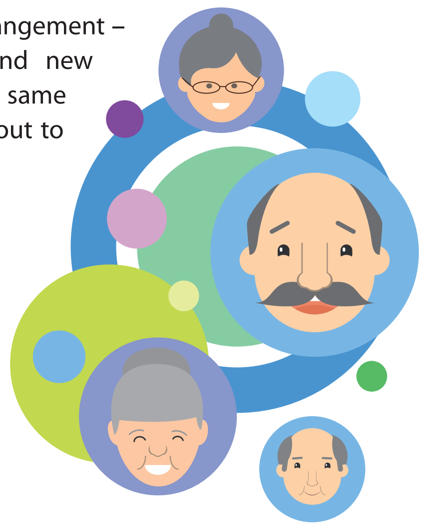
[27] SP is accounted for in a different manner. It is booked as an expense as and when it is incurred. No provisions are required in company books.

(b) impact on operation of the MPF System – to put in place the "grandfathering" arrangement, we envisage that technically, MPF trustees need to make system adjustments to calculate the "grandfathered" amount that can be used for "offsetting". The programming work is expected to be straightforward and no major technical problems are anticipated as long as sufficient time is allowed. Administratively, the trustees will have to notify both employers and employees the "grandfathered" amount and allow time for resolving disputes over the "grandfathered" amount. The MPF Authority may, after consultation with the trustees, issue a guideline to standardise the notification and dispute resolution procedures;

(c) implications for Occupational Retirement Schemes (ORSO), School Provident Funds and gratuities – the Occupational Retirement Schemes Ordinance and the Grant/ Subsidized Schools Provident Fund Rules, or any other retirement funds, provide for "offsetting" of SP/LSP expenditure against accrued benefits from employers' contributions under the respective schemes. If the recommendation of abolishing "offsetting" with a "grandfathering" arrangement is accepted, we recommend that the same should be applicable to ORSO schemes and the two School Provident Funds, subject to further discussion with relevant policy bureaux. Under the EO, SP/LSP can also be offset against gratuity. We do not recommend extending the abolition of "offsetting" to gratuity which is voluntary payment on top of mandatory MPF contributions;

(d) employees not covered by MPF System - currently domestic helpers, whether foreign or local, and workers aged below 18 or aged 65 or above, are not covered by the MPF System. For employees who are not covered by MPF or other retirement schemes, given that they are not to benefit from the abolition of "offsetting", their SP/LSP entitlements at the current quantum will remain unchanged. Their employers will also not be entitled to be reimbursed with any subsidy from the Government even if any SP/LSP cost is incurred; and

(e) interface between the old and new SP/LSP arrangement – transitional arrangement between the old and new SP/LSP regime of employee working for the same employer would need to be cautiously worked out to achieve fairness and ensure technical viability.



Alternatives considered

3.64 We have received various specific suggestions from the public. Some were put forth with the pretext of retaining "offsetting", which is against our policy aim of abolishing it. For those who agreed to abolish "offsetting", some suggested replacing SP and LSP with a government-funded UI, while others proposed scrapping LSP and keeping SP.

3.65 Like some of the respondents, our original aim was also to identify a neat and tidy solution to replace SP and LSP. But in view of their multiple functions as discussed above, such an ideal solution does not seem to exist. SP/LSP is payable, irrespective of whether the employee is able to find another job after dismissal or how long the unemployment period is. In practical terms, SP/LSP is not the same as UI benefits which seek to address the possible hardship of an employee during his period of unemployment. Various international studies have acknowledged the risk of moral hazard associated with UI by creating work disincentives. If the UI is to be publicly funded as suggested by some proponents, this may lead to more unintended consequences of "encouraging" workers to stay unemployed, or employers to provide non-continuous employment with shorter service since the Government would pay the dismissed employees at no cost to the employers. Against the backdrop of the prevailing very tight labour market and the declining labour force after 2018, we have reservation about introducing unemployment benefit that will have posed a restraint on the already tight supply of workers.

3.66 LSP has functions beyond retirement protection. Scrapping it will unlikely be accepted by trade unions.

Developing the eMPF platform

3.67 The next major reform by the MPF Authority to reduce fees will be the DIS to be launched in April 2017. Another initiative in the pipeline is the eMPF project which seeks to provide a centralised electronic portal for employees to access all relevant information about their MPF accounts. In addition, the eMPF would provide centralised collection of MPF contributions and necessary information from employers through electronic channels. The objectives of the eMPF are to lower the operating costs of MPF trustees so as to drive fees further down.

3.68 The MPF Authority has developed a preliminary conceptual model of the eMPF infrastructure and processes to standardise, streamline and automate the MPF scheme administration. It is engaging the industry to ascertain the technical feasibility and financial implications of the model. We recommend that the MPF Authority should be tasked to take forward such deliberations.

Making the voluntary savings pillar more assured

Supporting elderly persons in investment management

3.69 Increasing life expectancy comes with the risk of outliving one's resources. The poorer elderly persons have access to lifetime income under CSSA and OALA and their longevity risk is borne by Government. They currently make up about 50% of the total elderly population (to be increased to about 60% after the OALA enhancement proposed above is put in place). The remaining half with some relatively asset-rich rely on savings under the MPF System or other occupation-based retirement schemes as well as private savings. These individuals bear the longevity risk on their own. Some of them deal with the longevity uncertainty by consuming less each month, subjecting themselves to a lower standard of living than they would otherwise have. Others seek to insure against the longevity risk by purchasing financial products in the market, but the choices are rather limited. Life annuities are rarely found in the local market owing to the lack of financial tools for hedging the longevity risk and very long-term inflation risk as claimed by some industry practitioners.

3.70 With a short history of some 16 years, our MPF System is still very much in the asset accumulation phase. But with a more mature MPF, pay-outs from the System are expected to grow in future. By then, there will be a stronger demand for financial tools that can annuitise the MPF lump-sum into a steady stream of retirement income to increase financial security in old age.

3.71 Some respondents supported exploring the viability of a public annuity scheme in Hong Kong. They considered that the public would have greater confidence and be more inclined to join if the annuity scheme is run by the Government or relevant public body. In considering whether to join the scheme, they would take into account factors such as availability of refund upon death, reasonableness of returns and the pay-out flexibility in case of unexpected contingencies.

3.72 The Government will undertake a study to look into the merits and viability of a public annuity scheme, including the role of the Government, the Government's financial commitments involved in the annuity scheme, the need for mandatory enrolment, etc. Other related issues that may be looked into include whether the idea of Silver Bond of longer tenor as a retirement saving tool is workable in Hong Kong, and what more could be done at the policy level to create a market environment that can better encourage insurance companies or other financial institutions to tap into the potential of the silver market by introducing a wider spectrum of retirement-related financial products.

Encouraging voluntary savings

3.73 For both employers and employees, the mandatory 5% contribution under the MPF System is fully tax deductible. In the 2014-15 assessment year, the tax forgone as a result of the mandatory contributions from employers and employees totalled $5.4 billion. On top of the mandatory 5%, employers can also enjoy deductions for voluntary MPF contributions up to 10% of employees' total salaries. But no tax benefits are available for employees' voluntary contributions under the MPF System.

3.74 We have considered the merits of encouraging voluntary MPF savings through tax incentives. Possible measures include providing tax concessions for voluntary MPF contributions by employed persons for non-working spouse. To make a tax incentive for retirement saving effective, the tax benefit must be great enough. But in Hong Kong where there is a simple and low tax regime, the limited tax savings from tax deductions for voluntary MPF contributions would unlikely be effective in incentivising people to save more. At present, only 48% of the working population are paying salaries tax and most of them belong to the middle- or high-income groups who may save anyway. Tax incentives cannot reach out to our target group, the low-income earners who are least prepared for retirement. Besides, if employees just divert their non-MPF savings into their MPF accounts due to the tax advantage, the incentive only changes the way in which people save but cannot induce new savings. In view of the foregoing, we do not recommend introducing tax incentives for voluntary retirement savings.

3.75 However, we consider that the issue of helping low-income earners save more to increase their retirement protection, particularly those earning less than $7,100 a month, would warrant policy attention. At present, there are about 200 000 MPF scheme members with monthly income less than $7,100, who are not required to make their own contributions. Launched in May last year, the Low-income Working Family Allowance (LIFA) Scheme strengthens financial support for working poor families. A four-person household with two children may receive as much as $2,600 a month under the Scheme. We will examine how low-income earners currently exempted from employees' contribution to MPF may save more for their retirement in the overall review of the LIFA.

Measures already introduced

3.76 While the public engagement exercise and subsequent policy review were still underway, the Government wasted no time and introduced several measures last year to strengthen retirement protection. These include starting from 2016-17, increasing the allowances for maintaining a dependent parent or grandparent, benefiting 600 000 taxpayers[28]. Furthermore, the Government launched a two-year pilot programme on Silver Bond under the Government Bond Programme, targeting at Hong Kong residents aged 65 or above. The issuance size of the first Silver Bond is $3 billion. It has a tenor of three years, with interest rate linked to inflation in Hong Kong subject to a minimum rate of 2%. Subscription for the first Silver Bond launched last July met with encouraging response. The Hong Kong Mortgage Corporation Limited has also stepped up promotion efforts for the Reverse Mortgage Programme. Last October, the Programme was extended to subsidised sale flats with unpaid premium, allowing elderly persons to continue to live in their own subsidised flats while receiving a steady stream of income to improve the quality of retirement life.

[28] This involves adjustments in three areas. First, increasing the allowance for maintaining a dependent parent or grandparent aged 60 or above from $40,000 to $46,000. The same increase applies to the additional allowance for taxpayers residing with these parents or grandparents continuously throughout the year. Secondly, increasing the allowance for maintaining a dependent parent or grandparent aged between 55 and 59 from $20,000 to $23,000. The same increase applies to the additional allowance for taxpayers residing with these parents or grandparents continuously throughout the year. Thirdly, raising the deduction ceiling for elderly residential care expenses from $80,000 to $92,000 for taxpayers whose parents or grandparents are admitted to residential care homes.

Government's financial commitment under the package

3.77 Diagram 3.14 provides the preliminary estimated expenditure of the package in the ten-year period between 2017-18 and 2026-27. The expenditure of the additional layer of enhanced assistance and relaxed asset limits under OALA alone already far exceed the non-recurrent $50 billion committed in the 2015 Policy Address –

Diagram 3.14: Preliminary estimated expenditure or income forgone under the package over next ten years

Measures	Preliminary estimated expenditure or income forgone for next ten years ($ billion)	Preliminary estimated number of beneficiaries in the first year of implementation
Add a higher tier of allowance and relax the existing asset limits under OALA	75.57	Around 500 000 elderly persons
Lower the eligibility age for Elderly Health Care Voucher	11.86	Around 400 000 elderly persons
Automatic medical fee waiver for older and more needy OALA recipients in receiving public medical services	3.13	Around 140 000 elderly persons
Government subsidy during the transitional period of abolishing "offsetting"	6.22	-
Maximum tax forgone related to making LSP provisions which are tax deductible	17.96	-

Conclusion

3.78 This is the first territory-wide discussion on retirement protection organised by the Government since 1997. In response to the strong public aspirations for improving retirement protection, we have formulated a package of measures to strengthen the existing multi-pillar system, in particular the three pillars of social security, the MPF System and public services. The package has three policy highlights. First, providing more adequate financial support to needy elderly persons. Secondly, with abolishing "offsetting" as the starting point, taking forward other MPF reforms progressively, including building the eMPF, and implementing "full portability" and "one member, one account". Thirdly, enhancing healthcare services to provide more comprehensive retirement protection for elderly persons.

3.79 The package will involve an additional annual recurrent government expenditure of over $9 billion and a one-off expenditure of $6 billion in the coming ten years. Moreover, since employers may need to make provisions for LSP liability, it would also affect Government's tax revenue. Whilst it is difficult to estimate the precise impact, the maximum tax revenue forgone can reach a total of $18 billion in the coming ten years. In the 11th year, when no more subsidy is provided by Government, the maximum tax revenue forgone can reach $2.6 billion and this revenue loss will continue in the years to come. All these huge public finance commitments not only demonstrate the determination and sincerity of the Government, but also take into account the affordability of the Government and employers, and the importance of maintaining a balanced employment relationship.

3.80 After obtaining LegCo's funding approval, we will put in place the enhancements to OALA and healthcare services in a timely manner. We will in next three months engage the business and labour sectors, MPF trustees and relevant advisory boards in thorough discussions, explain to them our proposal of abolishing "offsetting" and listen to their views. Our aim is to revert to ExCo for decision on the finalised proposal before end June this year. We will also commence the study on the public annuity scheme, etc. with a view to building a more robust voluntary savings pillar.

Chapter 4:
Our Vision

4.1 Poverty alleviation is a long-term commitment. The current-term Government has made good progress in alleviating poverty which laid a solid foundation for our future work. In an international city as economically prosperous as Hong Kong, it is impossible to eradicate disparities in wealth. What matters is whether the Government can, through redistribution of resources, allow the general public to share the fruits of economic development. Looking ahead, we will persevere in our efforts in alleviating poverty under the following four policy directions:

- **Pro-work:** We will continue to develop our economy and create more quality and diversified employment opportunities for people of different backgrounds, abilities and ages. We will also provide incentives and support measures, such as the LIFA Scheme introduced last year, to encourage people to achieve self-reliance;
- **Pro-child:** Children are Hong Kong's future. We care about the well-being of children from grassroots families. For example, eligible low-income families may receive Child Allowance under the LIFA Scheme so that they can enjoy fair access to learning and self-development opportunities. The Pilot Scheme on On-site Pre-school Rehabilitation Services allows children in need to receive timely rehabilitation services within the critical treatment period. All these efforts are made to create favourable conditions for children from grassroots families and those in need to grow up healthily and realise their potential;
- **Pro-family:** Families are the building blocks of society. We will introduce more new policies and facilitating measures to enhance family support, promote mutual support among family members, and offer assistance where necessary to encourage families to provide better support and care for their elderly members; and
- **Pro-choice:** Apart from introducing the Pilot Scheme on Community Care Service Voucher for the Elderly, the current-term Government will soon roll out the Pilot Scheme on Residential Care Service Voucher for the Elderly. By adopting a "money-following-the-user" approach, the elderly persons in need of residential care service are given greater flexibility in choosing the services that suit their needs.

4.2 The current-term Government is committed to combat poverty and has rolled out many poverty alleviation measures with far-reaching impacts. These measures require follow-ups in future in a pragmatic manner. Subject to LegCo's funding approval, we will implement the recommendations on improving OALA and elderly healthcare services. We will explain to stakeholders in the following three months the proposal of abolishing the MPF "offsetting" arrangement and listen to their views. Moreover, we will conduct a comprehensive policy review of the LIFA Scheme in mid-2017 to refine the arrangements of the Scheme. We will make good use of the CCF and the SIE Fund to roll out new assistance programmes and to expand the social innovation space and promote the culture of "Shared Value" in Hong Kong. Lastly, we will continue to keep in view the poverty situation and the effectiveness of poverty alleviation measures through the annual updates of the poverty line analysis. We hope that the future Government and the community as a whole will continue to support the disadvantaged with sustained and concerted efforts based on the solid foundation laid by the current-term Government.

Designed by the Information Services Department
Printed by the Government Logistics Department
Hong Kong Special Administrative Region Government