退 = 憂？

Retirement: Your Will, Your Way
Study Objectives:
To help citizens realise an ideal retirement life

To analyse the pros and cons of the existing retirement protection measures in Hong Kong

To propose specific recommendations to enhance the retirement protection system
Background: Population ageing and elderly poverty are increasingly challenging issues for Hong Kong

1.07 million

The number of elderly in 2014

Around 30% of the elderly lived below the poverty line

Sources: Census and Statistics Department and Commission on Poverty.
Rationale and Principles

To build a caring society based on a people oriented approach

To safeguard a rational allocation of public resources to ensure fiscal sustainability

To promote shared responsibilities among Government, employers and employees to improve social cohesion

To strengthen public education, encouraging citizens to make financial plans for their retirement life as early as possible
To take care of the retirement needs of different groups

Policy recommendations for a comprehensive retirement protection system

1. Review the existing eligibility criteria for elderly CSSA applicants and consider allowing the elderly to apply for CSSA on their own and disregarding part of the financial support from their children.

2. Set up a ‘Public Pension’, with the amount determined by the income and asset levels of the elderly.

3. Abolish the MPF offsetting mechanism and increase employers’ and employees’ contributions in the long run.

4. Improve administrative procedures and enable employees to choose MPF schemes.

5. Promote the development of annuity market and encourage the purchase of life annuity.

6. Encourage enterprises to improve employees’ retirement benefits and consider increasing tax incentives.

7. Encourage individual voluntary contributions through a government matching grant.

8. Relax the collateral requirements and introduce more diversified plans.
(I) Review the elderly CSSA

- Scrap the requirement for a non-provision of financial support statement, to allow the elderly to apply for CSSA on an individual basis

- When assessing the amount of CSSA payable to the elderly, disregard part of the cash assistance from recipient’s children. Such an arrangement will help encourage children to support their parents and enhance the quality of life of the elderly
(II) Set Up a ‘Public Pension’

Target resources to strengthen the support towards the needy elderly via means test

Eligibility:
- Hong Kong permanent residents aged 65 or above

Monthly payment:
- The full pension payment is $3,200 payable to those with total monthly income and net assets not more than $5,000 and $50,000 respectively;
- The pension payment will be adjusted by a sliding scale according to individual applicant’s income and asset levels. The amount of payment will be deducted by $0.333 and $0.005 for each $1 above the respective income and asset limits, whichever is the less and a floor amount set at $1,235

Adjustment mechanism:
- The amount of the public pension and the income and asset limits will be adjusted by the price changes every year
Provide better financial support to elderly persons according to their economic situations

The amount of monthly payment (HK$)

For every $1,000 above the assets limit, the amount of the public pension will be deducted by $5

Standard rate of CSSA: $3,200
(Assets limit: $43,500)

OALA: $2,390
(Assets limit: $210,000)

OAA: $1,235

Source: The Centre's estimates.

Over 60% of the elderly will benefit
Shared Responsibility: Government, Employer and Employee

Inject $10 billion as seed money on top of the current social security expenditure on the elderly

Contribute an additional 1% of the relevant income

Employee

Contribute an additional 1% based on employee’s relevant income

Employer

Public Pension

Government
Balance of the ‘Public Pension’ will remain positive in 2064

Source: The Centre’s estimates.
### ‘Public Pension’ VS Government’s proposal and ‘Old Age Pension’

<table>
<thead>
<tr>
<th>Guiding Principle</th>
<th>‘Public Pension’</th>
<th>Government ‘Those with financial needs’</th>
<th>Prof. Chow ‘Old Age Pension’ (Regardless of rich or poor)</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Integrate OALA and OAA</td>
<td>- Integrate OALA and OAA</td>
<td>- Target resources to assist the elderly between CSSA and OALA</td>
<td>- - Retirement protection is a basic right, no means test should be imposed</td>
</tr>
<tr>
<td>- Target resources to provide appropriate support to elderly based on their income and assets levels</td>
<td>- Target resources to provide appropriate support to elderly based on their income and assets levels</td>
<td>- Target resources to assist the elderly between CSSA and OALA</td>
<td></td>
</tr>
<tr>
<td>Coverage</td>
<td>Increase to 100%</td>
<td>No changes, overall remains at 73%</td>
<td>Increase to 100%</td>
</tr>
<tr>
<td>Beneficiaries^</td>
<td>63% of the elderly, around 710,000 persons</td>
<td>22% of the elderly, around 250,000 persons</td>
<td>87% of the elderly, around 980,000 persons</td>
</tr>
<tr>
<td>Estimated additional expenditure (2015-2064)</td>
<td>$504.6 billion (annual average $10.1 billion)</td>
<td>$255.5 billion (annual average $5.1 billion)</td>
<td>$2,395.0 billion (annual average $47.9 billion)</td>
</tr>
</tbody>
</table>

Remarks: (^) The number of people with higher assistance comparing to those receiving CSSA, OALA, and OAA.
Sources: The Centre’s estimates; ‘Retirement Protection Forging Ahead’ by Commission on Poverty, 2015.
Features of ‘Public Pension’

VS Government’s Proposal

Provide elderly appropriate financial support

Assist marginalised people at the means-test limits

VS ‘Old Age Pension’

Ensure a reasonable allocation of public resources

Lessen the financial burden and ensure fiscal sustainability
(III) Improve the MPF system:
Abolish the offsetting mechanism

- Retirement protection under the existing MPF system is limited
- Under the current offsetting mechanism, employees’ accrued benefits may be offset by one-half
- Since the introduction of the MPF system, the amount of accrued benefits used for offsetting was more than $26 billion, and protection for employees’ were adversely affected
- Recommend the Government to take the lead and cancel the offsetting mechanism, making it gradually applicable to
  - Non-Civil Service Contract Staff
  - Staff of government outsourced service providers
  - Staff employed by public organisation

Source: Mandatory Provident Fund Schemes Authority.
Potential financial impact on enterprises if the MPF offsetting mechanism is abolished

Estimation of enterprises’ potential financial burden: $240 billion

Source: The Centre’s estimates.
Estimated financial impact on enterprises if the MPF offsetting mechanism is abolished

Specify an effective date to abolish the offsetting mechanism

<table>
<thead>
<tr>
<th>Before the effective date</th>
<th>After the effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allow employers to use the accrued benefits derived from mandatory contributions to offset the provision</td>
<td>Employers’ contributions cannot be used for offsetting the provision</td>
</tr>
</tbody>
</table>

$240 billion

The accumulated amount of accrued benefits used for offsetting severance payments and long service payments (0.4% of total wage bill)

$3 b

The additional costs should be manageable for most enterprises

Sources: Mandatory Provident Fund Schemes Authority and the Centre’s estimates.
(IV) Improve the MPF system: Enhance efficiency

- Proactively improve the administrative processes, e.g. expeditiously finalise the setup of the centralised electronic platform and database, to simplify the administrative procedures and reduce administrative costs.
- Implement the MPF full portability arrangement to enhance employees’ right of choice, thereby pushing trustees to lower their fund management fees and enhance the quality of services and products.

Assume the average fund expense ratio is lowered by 0.5 percentage point.

On average, each of 2.76 million employees and self-employed persons will be able to save around $1,000 a year.

Source: The Centre’s estimates.
(V) Improve the MPF system: Promote the development of annuity market

- Strengthen publicity and public education to enable more people to understand how different annuity plans can help reduce the risks of longevity, inflation, etc.

- Provide financial incentives to encourage citizens to purchase life annuity, enabling them to receive a stable monthly annuity payment
  - Provide citizens a subsidy with cap according to the assets value of the life annuity purchased
  - If the ‘Public Pension’ recipient decides to convert part of the assets into life annuity, the Government can consider relaxing the adjustment of ‘Public Pension’ of the related part of assets
Government expenditure on encouraging citizens to purchase life annuity

• Assuming that all the elderly will purchase life annuity and the Government provides 1% subsidy based on the purchased assets value, with the amount of subsidy capped at $10,000

• The average annual Government expenditure would be $1.2 billion in the next 50 years

Source: The Centre’s estimates.
( VI ) Strengthen the promotion of voluntary contributions to employee by employer

• Encourage enterprises to enhance their employees’ retirement benefits to attract talents and increase employees’ loyalty to the company

• The current tax deduction for employers’ contributions to employee is 15% of their total compensation. The Government should evaluate whether this arrangement can effectively encourage employers to make voluntary contributions and consider increasing incentives to motivate more employers to provide voluntary contributions to their employees
(VII) Encourage individual voluntary contributions through government matching contributions

To encourage people aged 18-64 to make voluntary contributions through government matching contributions, different matching ratios can be set based on their income levels so as to target the assistance at lower income earners.

For example:

<table>
<thead>
<tr>
<th>Monthly Income</th>
<th>Voluntary contributions</th>
<th>Government matching contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,000 or below</td>
<td>$1</td>
<td>$0.5</td>
</tr>
<tr>
<td>$20,000</td>
<td>$1</td>
<td>$0.25</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Government expenditure on matching contributions

- Assuming that 2.3 million people participate in the scheme and the maximum matching contributions by the government to each person is limited to $2,000 per year, the estimated annual cost would be up to $4.6 billion.

- Based on a matching ratio of 50%, a $4.6 billion government expenditure will attract an additional contribution of $9.2 billion, thereby significantly strengthening the retirement protection.

Remarks: The Hong Kong Investment Funds Association had commissioned Nielsen to conduct a survey during November – December 2014. Around 46% of the respondents were willing to join similar government matching scheme.
(VIII) Improve the Reverse Mortgage Programme

• Currently, an elderly aged 65 can receive a monthly payout of $10,000 throughout his/her entire life by using a property valued at $4 million as security

• Recommend the Hong Kong Mortgage Corporation Limited to relax the collateral requirements of the Reverse Mortgage Programme, including accepting subsidised housing with unpaid premium as collateral and life insurance policy as independent collateral, to enable the programme to cover more eligible elderly

• Introduce more diversified plans to meet the different needs of the elderly, for instance, an inflation-adjusted annuity plan, a flexible line of credit arrangement, and relaxation of the restrictions on repayment of loan in full

Source: The Hong Kong Mortgage Corporation Limited.
Conclusion

To address the insufficiency of Hong Kong’s existing retirement protection measures, the Centre proposes specific policy recommendations based on the situation of different groups of people. These recommendations not only provide better support to the less advantaged according to their needs, but also take into account the complementary effect of different measures.

CSSA  Public Pension  Reverse Mortgage

Older

MPF and Voluntary Contribution

Richer
Improving the lives of the elderly and the disadvantaged is a common goal of our society. Standing shoulder to shoulder, we can create a better retirement protection system.

Our ability to achieve this goal hinges on our willingness to share responsibilities
Thank you!
Bauhinia’s Retirement Protection Webpage

http://retirement.bauhinia.org
Supplementary Information
Hong Kong’s existing retirement protection measures based on the five-pillar model of the World Bank

<table>
<thead>
<tr>
<th>Zero Pillar</th>
<th>First Pillar</th>
<th>Second Pillar</th>
<th>Third Pillar</th>
<th>Fourth Pillar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comprehensive Social Security Assistance Scheme</td>
<td>Nil</td>
<td>Mandatory Provident Fund Schemes</td>
<td>Voluntary Contribution</td>
<td>Family Support</td>
</tr>
<tr>
<td>Old Age Living Allowance</td>
<td></td>
<td>Occupational Retirement Scheme</td>
<td>Personal Savings</td>
<td>Other Formal Social Programmes</td>
</tr>
<tr>
<td>Old Age Allowance</td>
<td></td>
<td>Civil Service Pension / Provident funds</td>
<td></td>
<td>Other Individual Assets</td>
</tr>
<tr>
<td>Disability Allowance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>