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Mandatory Provident Fund vs. Universal Old Age Pension: A Review of the Impact of Mandatory Provident Fund on Women’s Poverty in Hong Kong

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Abstract

After years of debates about setting up of a comprehensive retirement and old age protection scheme, Mandatory Provident Fund (MPF) Scheme was launched in 2000 in Hong Kong. MPF is the sole compulsory retirement scheme in Hong Kong, but its effectiveness on income protection and poverty alleviation is limited, especially towards women. MPF is a gender insensitive retirement scheme in two aspects. Firstly, many housewives, who were previously employees but have already left the labour market, are excluded from the scheme. Secondly, most of the working poor are women, whose contribution into MPF is too meagre for accumulating a substantial protection in their old age. This paper will analyse the ineffectiveness of the MPF in addressing women's retirement/old age protection issue in Hong Kong. Consequentially, many older women in Hong Kong are still living in poverty. These older women could just rely on the Old Age Allowance and Comprehensive Social Security Assistance, which are means-tested selective schemes provided by the HKSAR government, without adequate social protection.

A policy initiative to set up a universal Old Age Pension (OAP) was proposed by the civil society. The OAP is aimed at providing basic income for all elderly people over the age of 65 in Hong Kong. The scheme is a partially pre-funded scheme offering universal benefit of HK\$3,000 to all elderly citizens and is funded by tripartite contribution from employers, employees and government. This proposed scheme is found to be cost-effective and sustainable whereas it does not require extra contribution from employers and employees other than the existing MPF.

A universal OAP would allow all women especially un-paid homemakers and the low-waged women to have a basic protection at their old age. It is hoped that with the introduction of a gender-sensitive retirement protection scheme, the number of older women in poverty in Hong Kong would be reduced.

Keywords: Mandatory Provident Fund, Retirement Protection, Universal Pension, Women's Poverty, Hong Kong

Introduction

As an international instrument to promote women's rights and gender equality, CEDAW (Convention on Elimination of All Kinds of Discrimination against Women) states clearly that "The state parties shallensure, on a basis of equality of the men and women, the same rights, in particular,The right to social security, particularly in cases of retirement, unemployment, sickness, invalidity and old age and the incapacity to work, as well as the right to paid leave."

Hong Kong is an affluent society, advanced in economic development, but women, especially unpaid homemakers and low-income women, do not enjoy equal rights to retirement/old age protection according to the existing arrangement of retirement protection scheme.

Hong Kong is a rapidly ageing society. In 2011, there were 941,312 people aged 65 years old or over, amounting to 13.3% of total population (Census and Statistics Department, 2012). There were 438,257 male elderly and 503,055 women elderly, equivalent to 87 men per 100 women. It is projected that the number of people aged 65 years old or over will reach 2,485,600, amounting to 28% in 2039. There will be 1,049,900 male elderly and 1,435,700 women elderly, equivalent to 73 men per 100 women (Census and Statistics Department, 2010). Low birth rate and increasing life expectancy contribute to this ageing trend.

Life expectancy is now much greater than the global average: 86.1 for women and 79.88 for men in 2009. Over the next 30 years, the expectation of life at birth is expected to increase by 3.9 years for males and 4.0 years for females. By 2039, life expectancy at birth will increase to 90.1 for women and 83.7 for men. The number of working age adults for each person over 65 will drop from around six now to close to

two by 2039 (Census and Statistics Department, 2010). This ageing population means the working population of the future will have a much larger number of retirees to support.

It is clear that some forms of retirement/old age protection should be in place to address the needs of the rising number of elderly population and to provide them a decent livelihood. However, the authors would argue that the approach of the HKSAR government in handling retirement/old age protection is ineffective.

The Hong Kong Special Administrative Region (HKSAR) government claimed that “Hong Kong has all along been adopting a three-pillar model for retirement protection: the non-contributory social security system (comprising the Comprehensive Social Security Assistance ("CSSA") Scheme, and the Social Security Allowance ("SSA") Scheme which is made up of Old Age Allowance ("OAA") and Disability Allowance ("DA"), the Mandatory Provident Fund ("MPF") system and voluntary private savings” as quoted in a recently published report by Subcommittee on Retirement Protection of the Panel on Welfare Services of the Legislative Council dated 11 May 2012 (Legislative Council, 2012).

This three-pillar approach follows the approach proposed by World Bank in 1994, namely “(a) First pillar: a mandatory, non-contributory and publicly managed defined-benefit system; (b) Second pillar: a mandatory, contributory and privately managed defined-contribution system; and (c) Third pillar: voluntary occupational or personal savings”¹ (Legislative Council, 11 May 2012).

¹ “In 1994, the World Bank published the report "Averting the Old-Age Crisis: Policies to Protect the Old and Promote Growth" addressing the issues of retirement protection for the elderly. The report set out three objectives of financial security programmes for the elderly as insurance, redistribution and savings.” (Legislative Council, 2012), retrieved at

Before and after the return of sovereignty to China, there have been hot debates among the Hong Kong government (both the colonial government and the SAR government), the academics, the trade unions, non-governmental organisations, women's groups, grassroots organisations, employees, employers and the commercial sector on how the retirement protection should be provided in Hong Kong. Different versions of retirement protection system had been raised by different parties and discussed in the community, including a Central Provident Fund and an Old Age Pension. Due to the collective fight of the civil society since 1960's, a Mandatory Provident Fund (MPF) system, which only partially met the expectation of the civil society, was finally implemented in 2000.

According to Mandatory Provident Fund Schemes Authority, "Before the implementation of the MPF System, only about one-third of the Hong Kong workforce had some form of retirement protection. Such retirement protection arrangements included statutory pensions and provident funds for civil servants and school teachers, and retirement schemes set up by employers voluntarily for their employees. It was becoming clear that these arrangements were inadequate to provide for the entire ageing workforce over the long term" (MPFA, 2012).

However, after twelve years of implementation of the MPF, many elderly in Hong Kong are still living in poverty, especially those female elderly. Many elderly have to collect waste including paper boards, newspaper on the street while more than 70% of those elderly collected waste are driven by financial reasons (Lou, 2007). It is unacceptable that an extensive elderly abject poverty exists in such an affluent city as Hong Kong which was able to reach a GDP per-capita at US\$31,625 in 2010.

If the three-pillar approach (including the MPF, since 2000) which has been adopted by the Hong Kong government is effective, why does the elderly poverty rate reach such a high and unacceptable level in 2011?

This paper aims to examine the institutional reasons behind the poverty of older women in Hong Kong. It is argued that the MPF managed by the private sector is ineffective in alleviating poverty of older women in Hong Kong.

MPF is a gender insensitive retirement scheme in two aspects. Firstly, many housewives, who were previously employees but have already left the labour market, are excluded from the scheme. Secondly, most of the working poor are women, whose contribution into MPF is too meagre for accumulating a substantial protection in their old age. The authors propose to set up a Universal Old Age Pension (OAP) system to address the old age poverty, which is a gendered phenomenon, in Hong Kong.

The paper will be presented as follows: in next session, we will introduce the gender difference in elderly poverty in Hong Kong, we will discuss the problems and ineffectiveness of MPF scheme in solving the women elderly poverty problem in the second session. In the last session, the suggestion for OAP will be introduced.

Gender Difference in Elderly Poverty

According to the Hong Kong Council of Social Service (HKCSS), in mid-2011, among the 1,204,400 poor people, 290,700 of them are elderly. The overall poverty rate of Hong Kong is 17.8% while the elderly poverty rate is much higher at the level of 33.4% (HKCSS, 2012). According to Oxfam Hong Kong, in 2011, the average monthly expenses of poor elderly people are HK\$3,904, but they earn HK\$3,359 on average. This means that they face a deficit of \$545 every month. Despite the deficit, over 90% of the respondents, though qualified, are not receiving CSSA. The elderly

poverty problem has received lots of attention from the media and the public in Hong Kong, however poverty problem of older women has not received adequate attention as deserved. Gender difference among poor elderly will be examined in the following section.

In Hong Kong, the CSSA is the major income support scheme set up by the government. It serves as a safety-net and Hong Kong government always considers the level of CSSA as the threshold of absolute poverty. Recipients of CSSA need to meet residence requirements as well as pass stringent income and assets tests. The amount of CSSA provided, which is determined by the Hong Kong government, is intended to provide the recipients with a basic but minimal living standard. The recipients of CSSA can be regarded as constituting the core group of the poor who live in absolute poverty in Hong Kong.

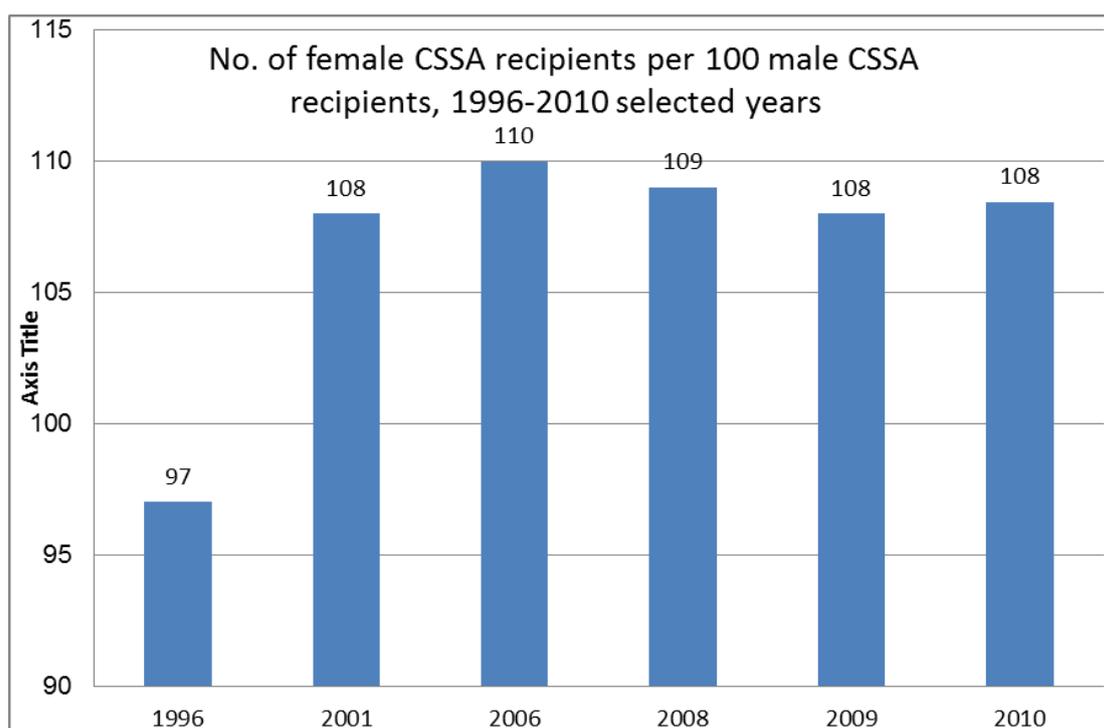
Numbers of CSSA recipients are often considered by the government and the media as a measure of the scope of absolute poverty in Hong Kong. Table 1 shows that, in 1996, among the 223,384 CSSA recipients, there were more men (113,140) than women (110,224). In 2001, the position was reversed as among the rising number (397,468) of CSSA recipients, there were more females (206,791) than males (190,677). In 2009, among the 482,001 CSSA recipients, 250,421 were females whereas 231,580 of them were males. The total number of CSSA recipients decreased somewhat in 2010, but female recipients still outnumbered their male counterparts by 18,838 (see Table 1).

Table 1: No. of CSSA recipients by Sex, 1996- 2010 selected years

No. of CSSA Recipients by Sex	1996	2001	2006	2008	2009	2010
Women	110,244	206,791	272,999	248,309	250,421	242,422
Men	113,140	190,677	248,612	227,316	231,580	223,584
Total	223,384	397,468	521,611	475,625	482,001	466,066

Source: Women and Men in Hong Kong: Key Statistics, 2001:56; 2006:82; 2011:203

Figure 1: No. of Female CSSA Recipients per 100 Male CSSA Recipients, 1996-2010 Selected Years

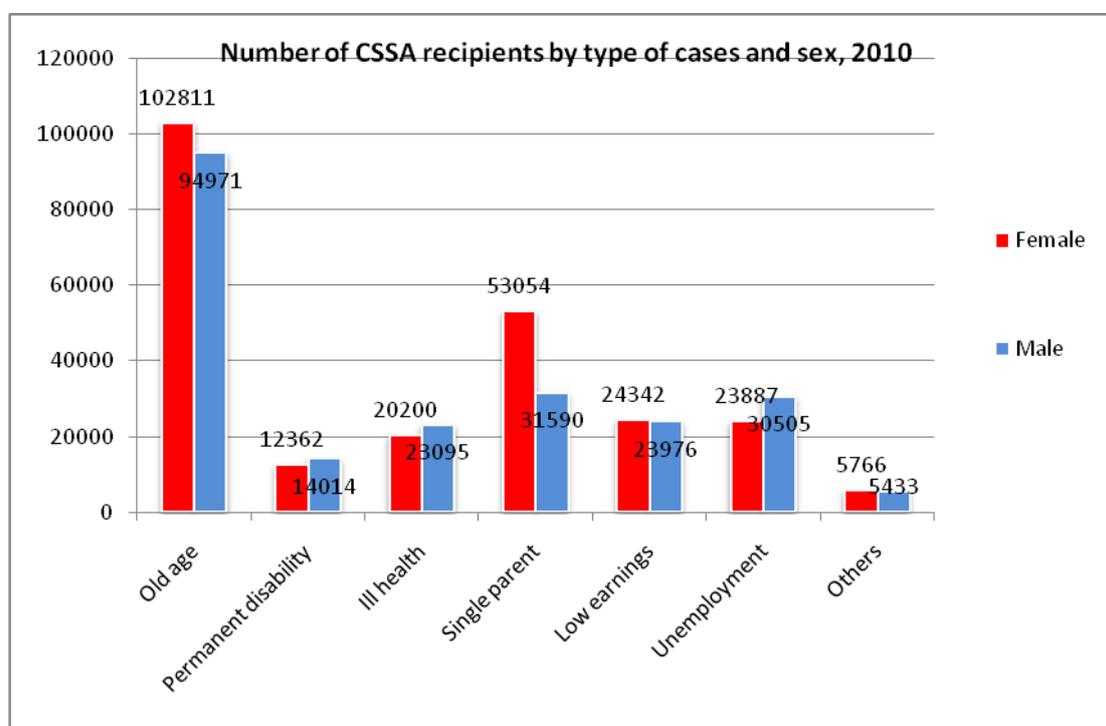


Source: Women and Men in Hong Kong: Key Statistics, 2001:56; 2006:82; 2011:203

Number of women CSSA recipients per 100 men CSSA recipients sharply increased from 97 to 108 from 1996 to 2001. The number further increased to 110 in 2006, which then gently decreased to 108 in 2009 and 2010 (see Figure 1).

Feminisation of CSSA recipients signifies the feminisation of poverty in Hong Kong.

Figure 2: No. of CSSA recipients by Type of Case and Sex, 2010



Source: Census and Statistics Department (2011, 203)

Significant gender difference can be found in the categories of the “old age” CSSA cases. In 2010, the number of female CSSA recipients in the ‘old age’ category was 102,811, which was significantly greater (by 8.9%) than that of older male recipients (94,971) (see Figure 2). This can be explained partly by women’s longer life expectancy, and partly because women cannot enjoy retirement protection as their counterparts.

Another important social security scheme is the Old Age Allowances (OAAs), whose aim is to provide a monthly allowance to Hong Kong residents who are 65 years of age or above to meet special needs arising from old age. The normal OAA is a means-tested scheme for those elderly aged 65-69, whose monthly income is less than HK\$6,660 (single person) or HK\$10,520 (married couple) and their asset is less

than HK\$186,000 (single person) or HK\$281,000 (married couple) (Social Welfare Department, 2012). The Higher OAA is a non-means-tested scheme for those elderly aged 70 and over. The amount of both normal OAA and higher OAA are HK\$1,090 per month in 2012.

Gender difference among OAA recipients is even bigger than those among the CSSA old age recipients. In 2010, there were 276,237 female OAA recipients, which was greater than 228,957 male recipients by 20.6%. From Table 2, the number of female OAA recipients per 100 male recipients is over 120 from 1996 to 2010, which signify a long-term and structural difference between male and female elderly.

Table 2: Number of OAA recipients by sex, 1996-2010 selected years

	Sex	1996	2001	2006	2008	2009	2010
Old Age Allowance	Female	247,239	256,025	258,021	265,871	271,587	276,237
	Male	188,384	201,594	206,804	217,179	223,771	228,957
No. of Female OAA recipients per 100 Male Recipients		131	127	125	122	121	121

Source: Women and Men in Hong Kong: Key Statistics, 2011:204

Why does the gender difference in elderly poverty exist? Among different reasons, is the gender difference in elderly poverty related to structural cause, like the arrangement of retirement protection? In the following section, we would explore the relationship impact of MPF on poverty of the elderly women.

Ineffective Mandatory Provident Fund Scheme

The MPF system in Hong Kong is the second pillar of the three-pillars of retirement protection as claimed by the Hong Kong government. The Mandatory Provident Fund Schemes Ordinance (MPFSO) was first enacted in 1995 and the MPF schemes were officially launched in December 2000.

The MPF is a defined contribution compulsory saving scheme covering both full-time and part-time employees between the age of 18 and 65 who have been employed for 60 days or more (irrespective of hours worked). MPF is the sole compulsory retirement scheme in Hong Kong, but its effectiveness on income protection and poverty alleviation is limited, especially towards women.

In the third quarter of 2011, Hong Kong's 3.64 million employed population was made up of 3.29 million employees, 0.34 million self-employed persons and 12,000 unpaid family workers. Among these 3.64 million employed population, 3.23 million (71%) were covered under MPF schemes and 14% under other retirement schemes in the third quarter in 2012 (MPFA, 2012). Twelve percent of the employed population, most of whom are domestic employees and employees aged above 65 or below 18, are not required to join the MPF schemes. The remaining 3% of the employed population are people who should have joined MPF schemes but have not done so.

Low Contribution Rate

An employee has to contribute 5% of his/her relevant income to a registered MPF scheme while the employer has also to contribute 5% of the employee's relevant income in the MPF scheme. In other words, in Hong Kong the total mandatory contribution rate is 10% of the employee's relevant income, which is lower than similar mandatory defined contribution scheme in Singapore (36% of employee's

income for employees aged under 50 in 2011), Low contribution rate of MPF definitely cannot generate enough saving to cater for the participant's multi-dimensional needs after retirement.

High Administrative Cost and Low Return Rate

The management and investment of Hong Kong's MPF schemes are operated by private banks and insurance companies. The operation cost further decreases the benefits accrued.

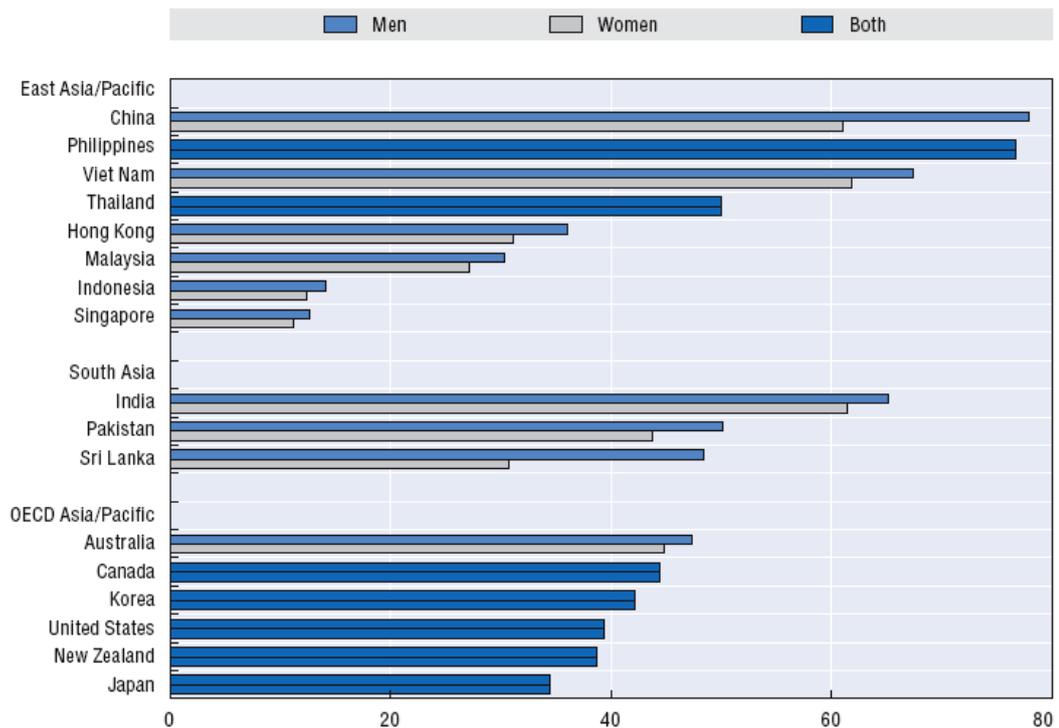
The research result of the Consumer Council in 2007 demonstrated that the per annum rate of administrative fees was 2% of the assets in average, and the highest one was 3.87%. Even capital preservation funds, which mainly receive interests from banks, charge more than 1.5% of administrative fees. According to same study, 1% of annual fee will reduce 23% of the retirement benefits over 40 years (on assumption of a 5% cent investment return), or \$690,000 less for an accrued balance of \$3.05 million (Consumer Council, 2007). The annualized internal rate of return of the MPF system is 2.5% from 2010 to 2011 (MPFA, 2012). The low return rate made MPF an ineffective protection scheme for both men and women. The above-mentioned findings by the Consumer Council vividly show that the high administrative cost charged by the trustees and investment managers is so high that the employees' benefit is hampered.

The return rate of the MPF scheme also faced negative impacts of volatile world financial market. The 2008 financial tsunami had adversely affected the performance of MPF investment, resulting in a loss of 25.9 per cent of net asset value in 2008/09 fiscal year. By end-March 2009, net investment returns recorded a negative growth of -0.8% since the inception of the MPF system (MPFA, 2009).

Low Replacement Rate

According to the report “Pensions at a Glance Asia/Pacific 2011” published by the OECD, the average replacement rate for pension schemes in East Asia/Pacific is 46%, which is well below 57%, the average for the 34 OECD countries as whole. For Hong Kong, the replacement rate of the MPF scheme for men is 34.1% and for women is 32.8% (OECD, 2012). The replacement rate of the Hong Kong MPF scheme is much lower than China (78%), Australia (47.3%) and similar with Japan (34.5%).

Figure 3: Replacement rates of Pensions in Asia/Pacific



Source: OECD pension models.

StatLink  <http://dx.doi.org/10.1787/888932553919>

Gender-insensitive

The above four reasons account for the ineffectiveness of MPF in providing retirement protection to all employees. Worse still, MPF is a gender insensitive

retirement scheme which has an adverse impact on women's socio-economic situation as a whole. Firstly, many housewives, who were previously employees but have already left the labour market, are excluded from the scheme. Secondly, most of the working poor are women, whose contribution into MPF is too meagre for accumulating a substantial protection in their old age.

Un-paid Homemakers are excluded

Owing to gender division of labour, more women are engaged in home work than men. Though women labour participation rate in Hong Kong increased from 51.6 to 53.4 in 2011, many married women especially those with young children are still excluded from the labour market. According to the 2011 Census, number of female home-makers is 526,138, which is much greater than the number of male home makers (32,191). Female home-makers constitute 15.6% of female population aged 15 and over (3,371,249). As home-makers do not belong to the working population, they cannot enjoy the protection of the MPF scheme. In other words, they are homemakers, predominantly women, are excluded from the MPF scheme.

Forced Self-employment

Furthermore, a large number of low-paid workers have been forced by their employers to become self-employed or contract workers subsequent to the introduction of the Mandatory Provident Fund. These shadow-employers attempted to evade from their obligation to make employers' contribution to the MPF by changing the status of the ex-employees into self-employed persons. Many of the pseudo self-employed are women in the sector like personal service. Their benefits are harmed as their employers do not make the employers' contribution.

Working Poverty

Women consider their protection gained from MPF will not be sufficient for their retirement life, as a tremendous number of them are part-time and low-paid workers whose monthly salary is less than the threshold (HK\$5000 before November 2011; HK\$6,500 since November 2011) and are exempted from the employees' mandatory contribution. From October to December 2010, monthly earning income from all employments of 395,000 women (23.3% of all female employed persons) was less than HK\$5,000. The Statutory Minimum Wage was enforced on 1 May 2011, but the number and percentage of women earning less than HK\$5,000 per month do not drop. From October to December 2011, monthly earning income from all employments of 397,100 women (22.8% of all female employed persons) was less than HK\$5,000. Most of these low-paid women did not make the employees' contribution in order to increase their take-home pay to cover the daily budget of the households. Consequentially, these low-paid women will only receive the employers' contribution. In other words, they will only receive half of the retirement benefits when compared to those workers with higher pay.

Wong & Fong (2012) define low-paid worker or working poor as those employed persons (including part-timers and the self-employed, but excluding foreign domestic helpers) whose monthly earnings are less than HK\$4,000 (about 40% of the median monthly income of the total employed population). Firstly, as we wish to explore the gender gap in income, it is preferable to use the individual rather than the household as the unit of analysis. Secondly, by choosing 40% of median income as the threshold of working poverty, we focus our analysis on those who are more deprived in the labour market. Furthermore, it is the threshold usually quoted by the Hong Kong government and the media in Hong Kong.

Table 3, which excludes data on foreign domestic helpers, shows that in 2001,

101,300 women (or 8.3% of employed females) earned less than HK\$4,000 a month, whereas only 51,900 men (2.8% of employed males) earned less than HK\$4,000. Women constituted 66.1% of the working poor population. In 2009, a growing number of employed women (130,500) earned less than HK\$4000 a month, representing a 28.8% increase in eight years' time, whereas the female working poverty rate was as high as 9.2%. In 2010, a year with a minor improvement, the number of female working poor decreased to 111,700, whereas the female working poverty rate decreased to 7.9%.

Table 3: Number and Percentage of Female Employed Persons with Monthly Earning Less than HK\$4000 (excluding Foreign Domestic Helpers) (2001-2010, selected years)

	2001	2006	2008	2009	2010
(a) No. of female employed persons with monthly earning less than \$4,000 ('000)	101.3	137.8	130.0	130.5	111.7
(b) No. of male employed persons with monthly earning less than \$4,000 ('000)	51.9	69.3	57.9	67.5	55.2
(c)=(a)+(b) Total no. of employed persons with monthly earning less than \$4,000 ('000)	153.2	207.1	187.9	198	166.9
(d) = (a) / (c) % of women in total employed persons with monthly earning less than \$4,000	66.1%	66.5%	69.2%	65.9%	66.9%
Female working poverty rate*	8.3%	10.1%	9.1%	9.2%	7.9%
Male working poverty rate*	2.8%	3.8%	3.1%	3.7%	3.0%

*Female and male working poverty rates are the proportions of female and male employed persons with monthly earning less than \$4,000 among all employed persons of the corresponding sex.

Source: Census and Statistics Department (2011: 177)

It is evident that of every 10 to 12 working women in Hong Kong, one of them can be classed as working poor, whose earnings have been below HK\$4,000 a month in the last decade, and over two-thirds of the total of working poor are female. This demonstrates clearly that working poverty in Hong Kong is fundamentally a gendered phenomenon reflecting the extremely low wage of working women (Wong & Fong, 2012). Consequentially, the saving gained from MPF of the working poor women is low and insufficient for retirement protection.

Women's Attitudes towards MPF and Pension

According to a telephone survey conducted by the Network for Women in Politics & HKUPOP in 2011, which interviewed 512 women aged 18 to 64, 65% of respondents claim that their “personal savings” is their major source of support for their life after retirement is, whereas 25% claim “investment” and 23% claim “earnings from offspring” (23%) as the major source. Only 14% and 12% regard “MPF” and “Pension” as their major source of support for their living after retirement respectively. The response shows that MPF is not a preferred choice for women in facing their retirement arrangement (Network for Women in Politics, 2011).

From the same survey, among the 341 respondents who were currently working full-time / part-time and retirees, over three-quarters (77%) were currently being or had been covered by an MPF scheme. As high as 89% of these MPF members believe that current MPF contributions are not sufficient for their retirement life (Network for Women in Politics, 2011). This survey also reveals that a majority of respondents find that Hong Kong's existing retirement protection provided for women, including housewives and non-working women, is “insufficient” (79%). The major reasons

suggested are “full-time housewives are not covered by any retirement protection scheme” (36%) and “not enough social welfare are provided for elderly women” (35%).

The insufficient protection of MPF at women’s old age is directly related to the working poverty of these women at their working age, as MPF is an individual compulsory saving scheme which transfers income from the working age of an individual to income in their retirement age. As the working poor in Hong Kong are predominantly women, the adverse impact of MPF on women employees is more prominent. MPF, to a great extent, perpetuates women’s poverty, from working poverty to elderly poverty. All in all, as Hong Kong Women's Coalition on Equal Opportunities (2006, 28) mentioned in its Shadow Report to the CEDAW Committee, ‘MPF is a gender insensitive retirement scheme. Unpaid homemakers who are predominantly women and women who are not engaged in employment due to disability, chronic illnesses, etc. are excluded from the scheme’. Without any kind of universal retirement benefit, those older women can only rely on income support schemes including CSSA and OAA, or working in the informal sector to support their living.

Old Age Pension Scheme

The setup of a comprehensive retirement or old age pension scheme which is universal in nature has been raised in Hong Kong since the 1960s. Among a variety of proposals and options, one of them was proposed by the Hong Kong government, which could be known as the old proposal of the Old Age Pension Scheme.

In 1993, the Hong Kong government proposed to the Legislative Council the adoption of a compulsory contributory Old Age Pension Scheme (OPS) that would

provide a flat-rate monthly pension for all eligible elderly. According to the the then Hong Kong government, OPS could better meet the needs of the local community amid a range of options on retirement protection. In particular, the government claimed that OPS could offer the following key advantages over Central Provident Fund (CPF):

- a. Immediate benefits upon implementation, without having to wait 30 or 40 years as in the cases of CPF;
- b. Wider coverage than CPF, as low-income earners, retirees, housewives and those outside the workforce would also be covered under OPS;
- c. Inflation-proof income at a guaranteed basic level, as the retirement income under CPF would depend on the contributor's income level and be subject to the risk of fluctuating investment returns; and
- d. Lower rates of contribution for both employers and employees compared with those required for CPF.

In 1995, the Government announced that the OPS would be abandoned as the public opinion was too divided on the Scheme. The reasons behind the abandonment of the proposal included the lack of support for OPS in Legislative Council, as well as strong objection from the business sector and the mainstream economists (Legislative Council Secretariat, 2005). Two months after the abandonment of OPS, the Government moved a motion in the Legislative Council in March 1995 to gain support for a mandatory, privately managed provident fund scheme and would like to set up the legal framework of the scheme before 1997, the handover of Hong Kong's sovereignty from the UK to China.

An Alternative: HKCSS OAIP Proposal

The World Bank constructed a new conceptual framework in relation to the old age income support system in 2008. A five-pillar concept replaced the old three-pillar concept, which has always been upheld by the Hong Kong government. This new framework focuses on how to achieve the core objectives of pension systems via “protection against the poverty in old ages” and “smoothing consumption from one’s work life into retirement” (Holzmann, Paul & Dorfman, 2008). The five pillars are:

- 1) **A non-contributory “zero pillar”:** social security typically financed by the Government.
- 2) **A mandatory “first pillar”:** public pension system financed on a pay-as-you-go basis.
- 3) **A mandatory “second pillar”:** a compulsory employee savings account (defined contribution plan) which establishes a clear linkage between contributions, investment performance and benefits.
- 4) **A voluntary “third pillar”:** individual savings for retirement.
- 5) **A non-financial “fourth pillar”:** informal support from family and other formal social programs, such as health care and housing.

More importantly, the World Bank emphasises that the future pension systems can only be relied on diversification of means in order to manage long term risks. For instance, zero and first pillars mainly focus on redistributing wealth, whereas second and third pillars are individual savings. Hence, we should not argue which pillar is better, instead we need a spectrum of *diverse means*. If we apply the above framework to the existing pension system in Hong Kong, old age CSSA Scheme and OAA are

equivalent to the “zero pillar”; the MPF system and other occupation retirement schemes as the “second pillar”; personal savings as the “third pillar”; finally family support and the old age health care and housing subsidies as the “fourth pillar.” In other words, what Hong Kong lacks is the “first pillar” to protect low earnings through financial assistance of pay-as-you-go manner.

The OAIP scheme proposed by the Hong Kong Council of Social Services (HKCSS) in 2006 and the Universal Old Age Pension Scheme proposed by the Professional Commons in 2010 are examples of the proposed first pillar to provide a comprehensive and adequate income protection for the elderly

In 2004, more than 50 non-governmental organisations (NGOs) formed the Joint Alliance for Universal Retirement Pension (Hong Kong) (JAURP) and jointly proposed a “Universal Retirement Protection Scheme” to re-advocate the setting up of the OAP Scheme. The basic proposal endorsed by the Alliance in 2006 was based on the OAIP scheme suggested by the HKCSS. Old Age Income Support Scheme (OAIP) was proposed by the Hong Kong Council of Social Service in 2006. Hung WONG, the second author of this paper, was the convener of the HKCSS working group on OAIP.

Aiming at providing basic and adequate incomes for all elderly, the OAIP has the following objectives:

- To allow all elderly have basic standard of living;
- To alleviate old age poverty; and
- To finance public expenditure arising from the aging population.

There are five guiding principles in setting up the OAIP:

- 1) **Universality:** all eligible elderly (aged 65 & over, with 7-year residency in Hong Kong and do not receive pension as government employees) will be protected by the scheme. Eligibility does not depend on working or contribution history.
- 2) **Immediate Protection:** the elderly can enjoy income protection after the launch of the scheme and do not need to wait for the maturation of the fund for 30- 40 years as other “defined contribution” schemes.
- 3) **Adequate Level:** the level of protection is adequate to maintain the basic living need of the elderly while the amount should be indexed to inflation to maintain basic purchasing power. The suggested amount is HK\$3,000 per month.
- 4) **Sustainable Operation:** the scheme should be economically sustainable to meet the growth of aging population.
- 5) **Supplement with Other Services:** the OAIP only provides a protection of basic living, which should be supplement coherently with other medical, housing and long-term care services.

Calculation of the expenses and incomes of the OAIP system as a whole is based on the population projection for the future 30 years made by the Census and Statistics Department and an assumption of the annual real wage growth rate and annual real investment return rate, both of which are set at 2.1%. The tripartite funding sources include government, employer and employee. For government, the CSSA and OAA expenses for the elderly aged 65 and over will be transferred to this new scheme. The contribution will be adjusted according to the annual growth rate of the elderly population aged 65 and over. For both employers and employees, half of their MPF

contribution (2.5% of employee's salary) will be transferred into the OAIP scheme and the other half contribution (2.5% employee's salary) will continue to be saved in the MPF scheme. For those enterprises with a profit greater than HKD 10 million, an extra profit tax of 1.75% will be charged. The ratio of the contribution from the government, employer, employee and extra profit tax is 3:2.5:2.5:2 respectively. Table 4 shows the total contribution, expenses, reserve and accumulated reserve in five years' interval from 2003 to 2053. Figure 4 shows the the projection of contribution from 2003 to 2053.

The OAIP is a partially pre-funded scheme, which will accumulate reserve in the first 20 years to provide expenses in the future. From 2003 to 2043, contribution will be greater than the expenses, so the accumulative reserve of the OAIP in 2023 will be at the level of HKD 134.2 billion, providing a necessary reserve to finance the expenses in the peak period of aged population from 2023 to 2043. In 2053, the total contribution will be greater than the total expenses while the estimated accumulative reserve will be HKD 74.51 billion which is greater than the accumulative reserve of HKD 69.9 billion in 2048. This increase and the reverse trend in estimated accumulative reserve signifies the financial sustainability of the OAIP. Figure 5 shows the total contribution and total expenditure in five years' interval from 2003 to 2053, while Figure 6 shows that the total accumulated reserve in five years' interval during the same period.

Table 4: Projection of contribution, expense and accumulated reserve of OAIP (2023-2053)

Year	Population Aged 15-64 〔 '000 〕	Number of Elderly (Aged 65 & over) 〔 '000 〕	Funding Source 〔 100 million HKD 〕				OAIP Expense 〔 100 M 〕	Reserve 〔 100 M 〕	Accumulated Reserve 〔 100 M 〕
			Government	Employer & Employee	Profit Tax	Total			
2003	4,724.5	795.4	80.0	188.2	46.4	314.6	277.8	36.8	36.8
2008	5,002.0	857.0	86.2	221.0	49.9	357.1	299.3	57.8	297.5
2013	5,235.5	977.9	98.4	256.6	56.8	411.8	341.5	70.3	669.8
2018	5,265.6	1,220.8	122.8	286.2	71.1	480.1	426.4	53.7	1,058.1
2023	5,180.3	1,548.4	155.7	312.2	90.2	558.1	540.7	17.4	1,341.4
2028	5,015.6	1,936.3	194.8	335.2	112.7	642.7	676.2	-33.5	1,421.4
2033	4,897.0	2,242.9	225.6	363.0	130.5	719.1	783.2	-64.1	1,307.3
2038	4,797.0	2,473.4	248.8	394.3	144.0	787.1	863.8	-76.7	1,076.7
2043	4,718.4	2,590.0	260.5	430.2	150.7	841.4	904.4	-63.0	836.5
2048	4,643.5	2,626.0	264.1	469.5	152.8	886.4	917.0	-30.6	699.2
2053	4,555.3	2,622.9	263.8	510.8	152.7	927.3	916.0	11.3	745.1

Figure 4: Amount of Contribution from Government, Employer & Employee and Profit Tax of OAIP (2003-2053)

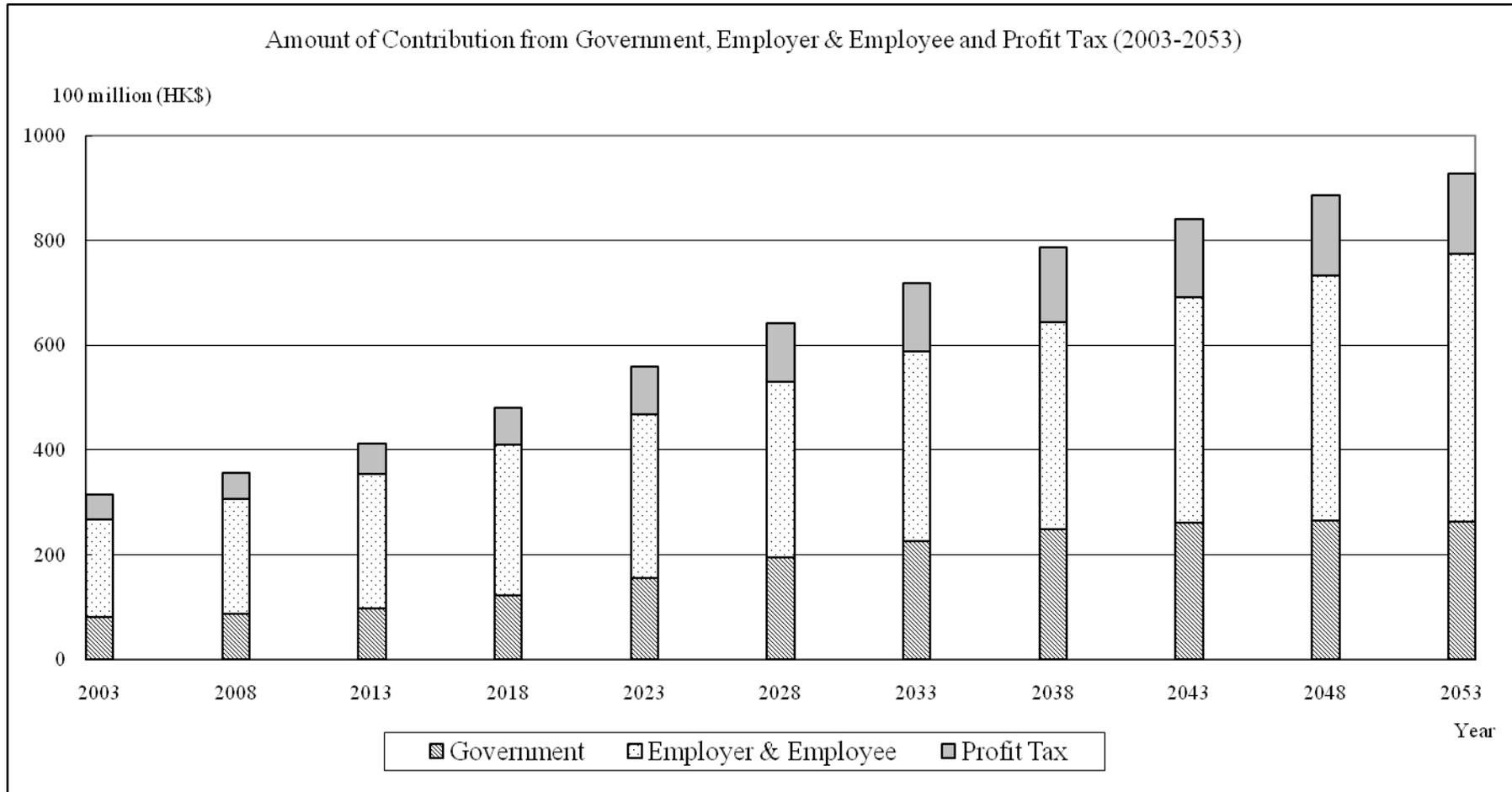


Figure 5: Amount of Contribution and Expenditure of OAIP (2003-2053)

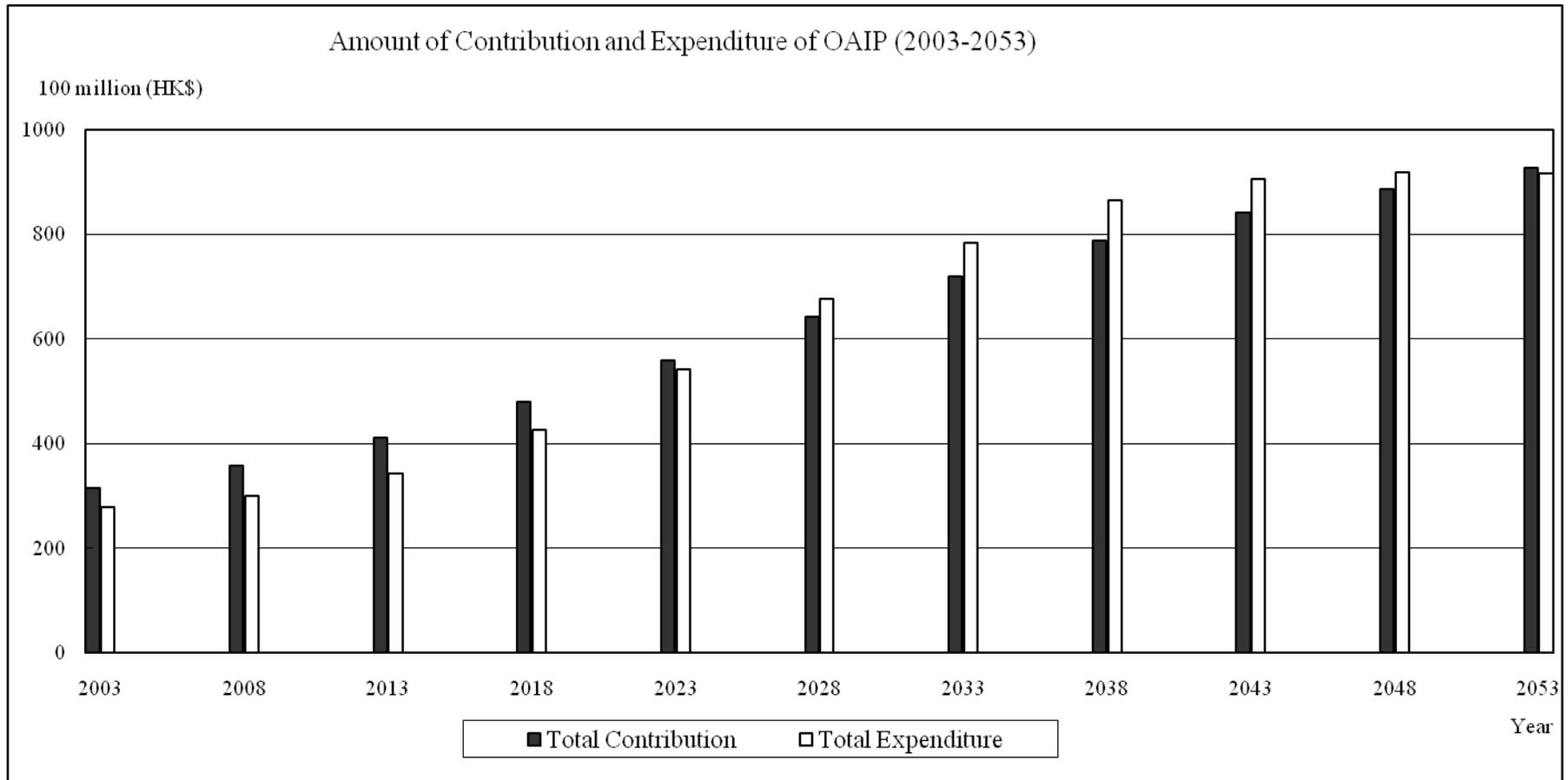
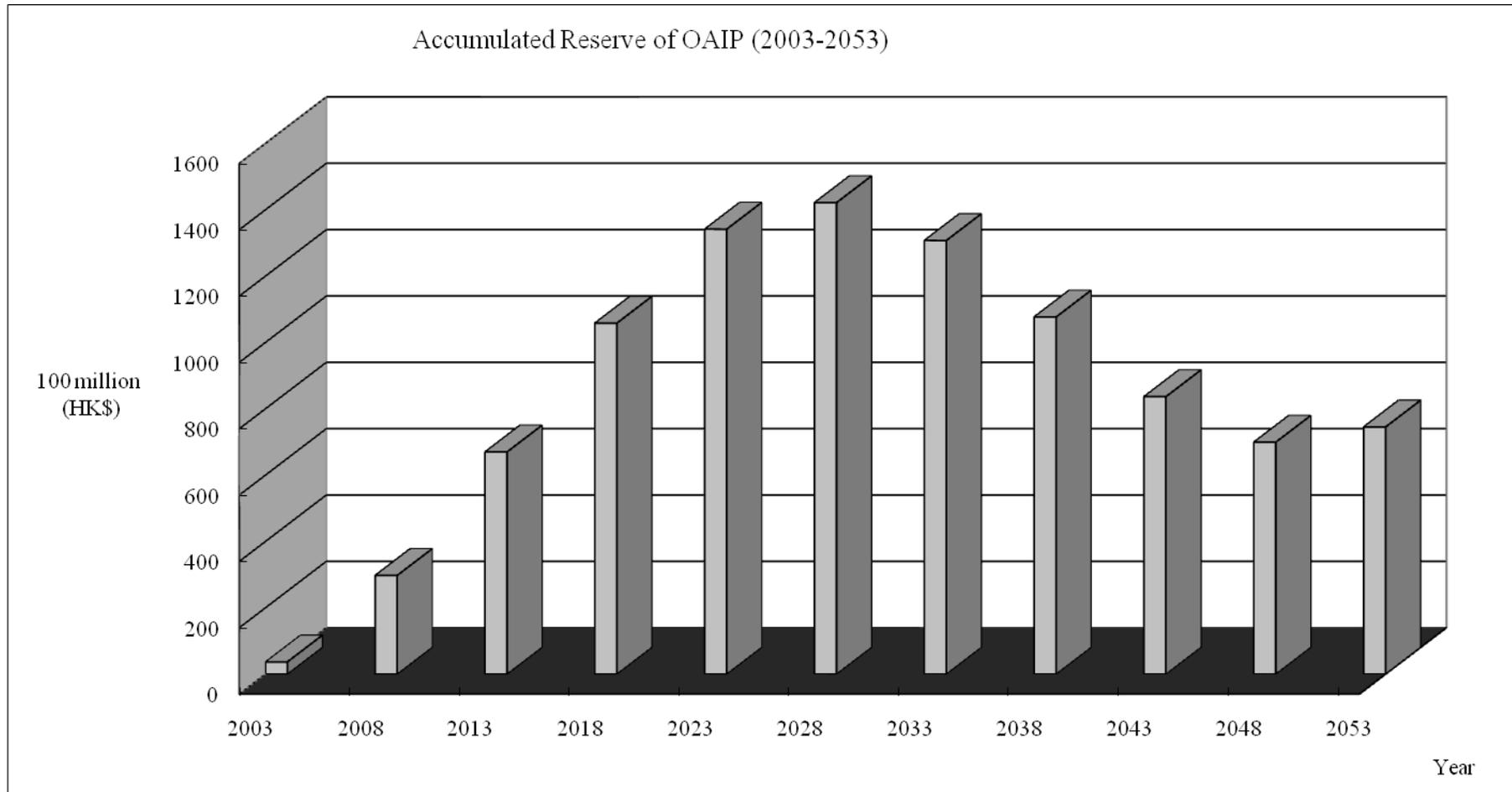


Figure 6: Accumulated Reserve of OAIP (2003-2053)



In 2010, the Professional Commons proposed another Old Age Pension (OAP) Scheme. Similar to the OAIP proposal of the HKCSS, they proposed a universal eligibility for all elderly aged 65 and over whereas the monthly benefit amount will be set at HK\$3000 too.

The major difference between Professional Commons' OAP proposal and the HKCSS's OAIP proposal lies on the financial sources of the scheme. The Professional Commons propose not to decrease the MPF contribution rate, but employee and employers shall contribute 1.9 per cent of employees' income to the new OAP. Workers who earn less than HK\$5,000 (2008 level) do not need to contribute, but their employers are still required to contribute. No capping on maximum contribution (Professional Commons, 2010).

Discussion

The major weakness of the MPF scheme, a defined contribution retirement scheme, is that the protection in old age is directly linked to the length of participation in labour market and the pay level of the employee. However, women participate shorter time in the labour market and their incomes are lower than their male counterparts due to gender division of labour and discrimination. We agree with the claim of the Hong Kong Women's Coalition on Equal Opportunities that 'MPF is a gender insensitive retirement scheme' (Coalition, 2006: 28) and could not provide sufficient protection to women, especially the un-paid homemakers and low-income women.

Both proposals of Old Age Pension of the HKCSS and Professional Commons provide income support to all elderly aged 65 and over. These proposals of OAP are

more gender sensitive than the existing MPF system. The idea of the proposed OAP echoes the pension reform in Chile since 2008 with the creation of a basic pension (PBS) for non-contributors and a supplementary state contribution (APS). We could learn from the experience of reform in Chile to introduce more gender-equality elements, such as grant per child for women, economic compensation in case of divorce, and survivorship pensions for men etc to build up a more gender sensitive Old Age Pension system in Hong Kong.

Moreover, gender inequality does not only exist in old age protection, but exists in various aspects of the labour market. For instance, the government's lack of gender sensitivity to the feminisation of poverty and inadequate labour protection for casual women workers who work less than 18 hours a week are also causes of women's poverty.

According to the above analysis, if women face gender inequality and are being trapped in poverty during their working age, they will also be most probably trapped in poverty in their old age due to the ineffective MPF scheme. On the contrary, a universal basic pension for all citizens will be an effective means to alleviate the poverty of old age women without any stigmatizing effect of mean-tested public assistance scheme. The Old Age Pension system has been endorsed and advocated by NGOs, unions and political parties, but the Hong Kong government still insists on its three-pillar approach. The Hong Kong government argues that the existing three-pillar retirement protection model in Hong Kong has drawn reference to the World Bank's multi-pillar model and the three pillars are complementary to each other. Though, it is widely perceived and commonly understood that the World Bank has pointed out that the multi-pillar model is only a framework but not a "one-size-fits all" blueprint.

All in all, it is a battle between the civil society and the Hong Kong government

and the opponents of the Old Age Pension. The Chief Executive, Donald Tsang, in his reply to Legislative Councillor's question on 19 May 2011, restated that the set up of a universal retirement protection system would be a large-scale social reform with far-reaching implications. He considered it impractical to expect the community to reach a consensus on this matter within a short period of time. The newly elected Chief Executive, C.Y. Leung will assume office on 1 July 2012. Leung has not included any commitment about a universal retirement protection system in his election manifesto, but only proposed a modest reform on the existing OAA. It is clear that it is definitely a long road to advocate for the setting up a Universal Old Age Income Protection scheme, to address and alleviate the gender inequality, existed in retirement policies in Hong Kong.

Conclusion

Viewing the ineffectiveness of the existing MPF in providing sufficient retirement protection to all employees in general and to women in specific, a universal and inclusive retirement protection system which is gender sensitive should be developed in Hong Kong. The new system should take into account of the social and economic rights of women, particularly the low-income women and un-paid homemakers. Gender mainstreaming and gender budgeting in the policy formulation process of social security, particularly retirement protection, should be executed to echo the CEDAW. Moreover, viewing that elderly poverty is an extension of working poverty, effort should be made to alleviate women's poverty, especially working poverty.

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