

**FISS 24TH INTERNATIONAL RESEARCH SEMINAR  
ON ISSUES IN SOCIAL SECURITY**

**Retirement Protection in Hong  
Kong in the Crossroads:  
Forging Ahead or Dead-end?**

**THIS WAY**

**ANOTHER WAY**

**THAT WAY**

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# Background for Retirement Protection in Hong Kong

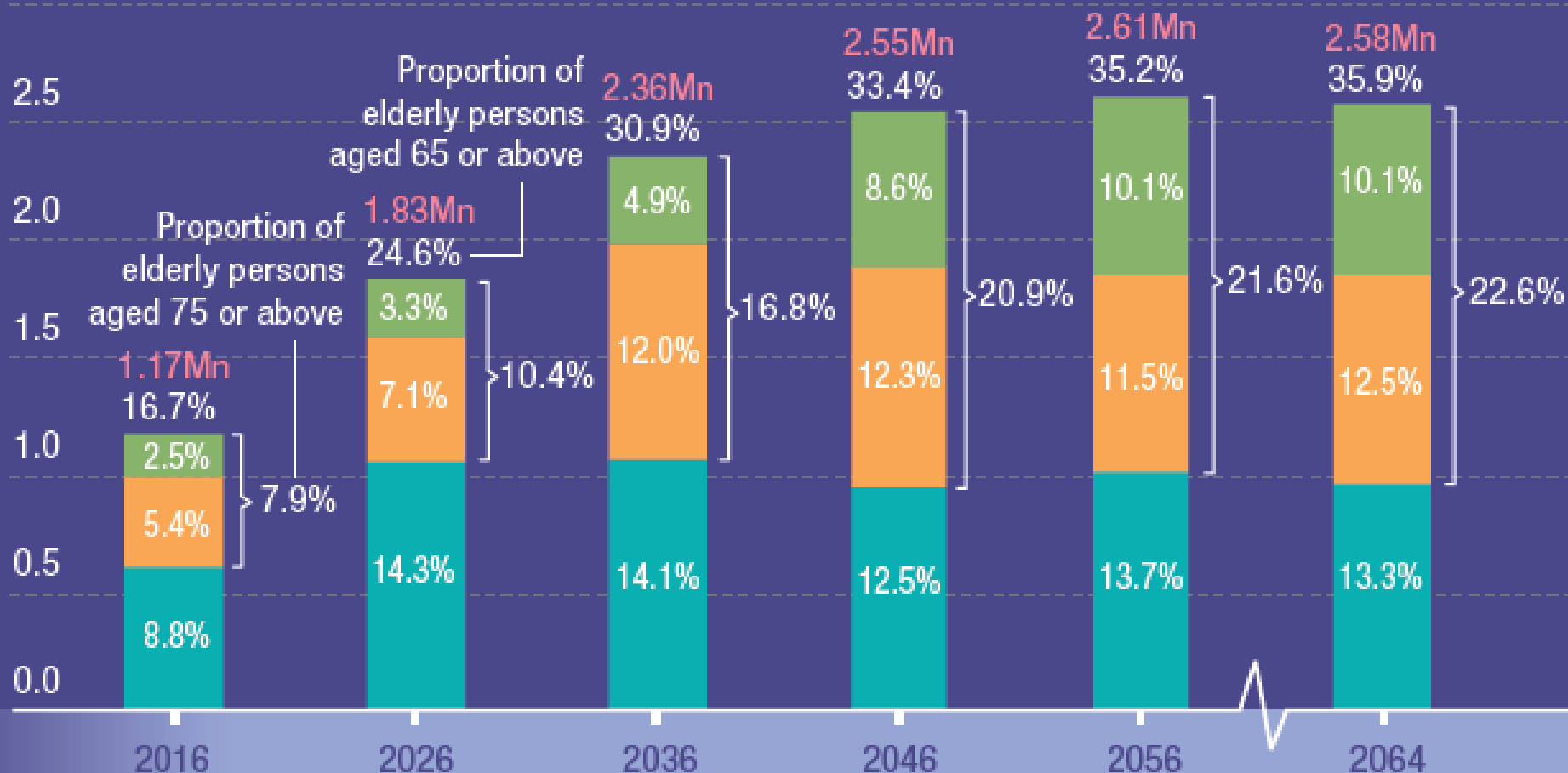
- ✿ Rapid Ageing Population (33.4% -35.9% from 2046 -2064)
- ✿ Longer Life Expectancy (1<sup>st</sup> in the World)
- ✿ Severe Elderly Poverty (44.5% before cash transfer; 30.1% after cash transfer)



# Rapid ageing in next 20 years, with more prominent increase for aged 75 or above

Population (million)

3.0

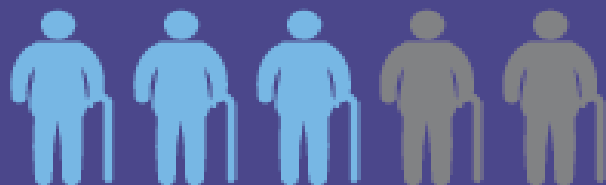


Notes: Projected figures for the years after 2016  
Numbers may not add up to the total due to rounding

Source: Census and Statistics Department

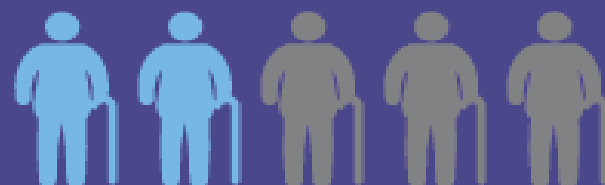
- Age 85+
- Age 75-84
- Age 65-74

# Longer life expectancy, retirement life up to 20 to 30 years

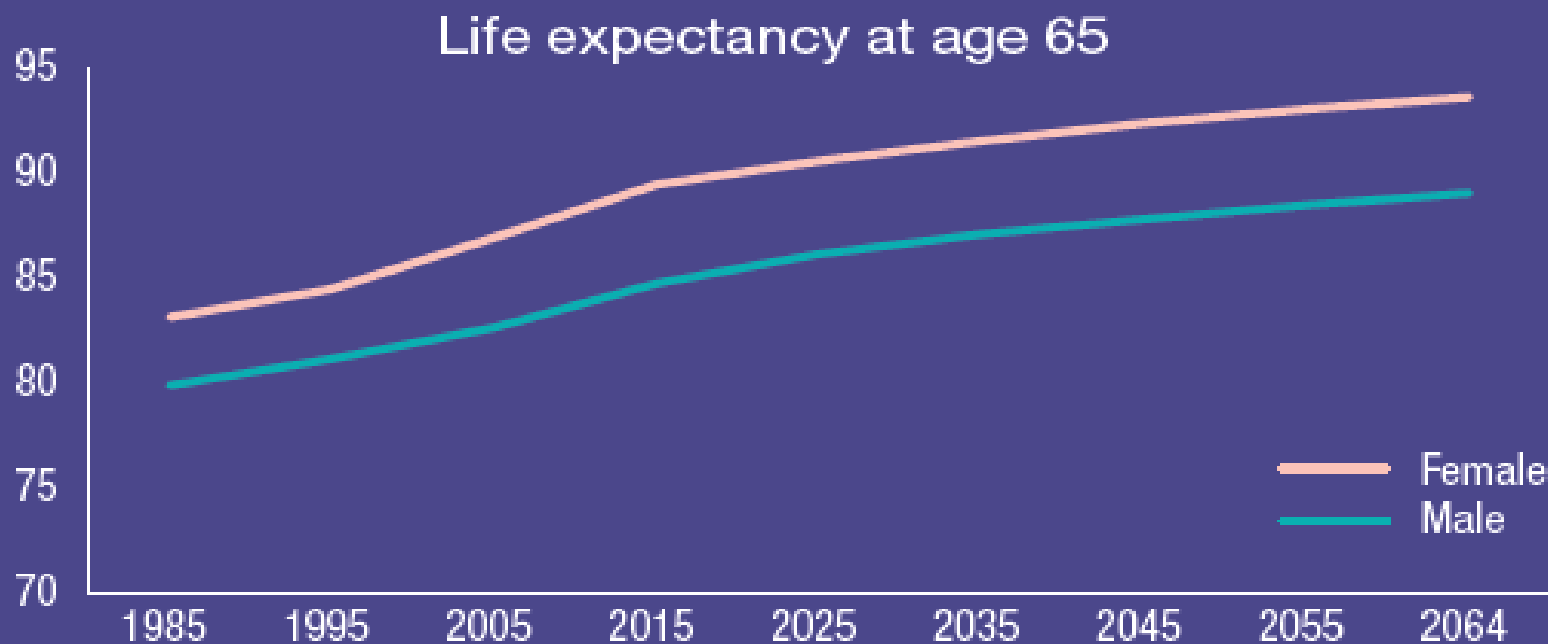


On average, three in every five elderly persons aged 65 are expected to live to **the age of 85 or above**

2015

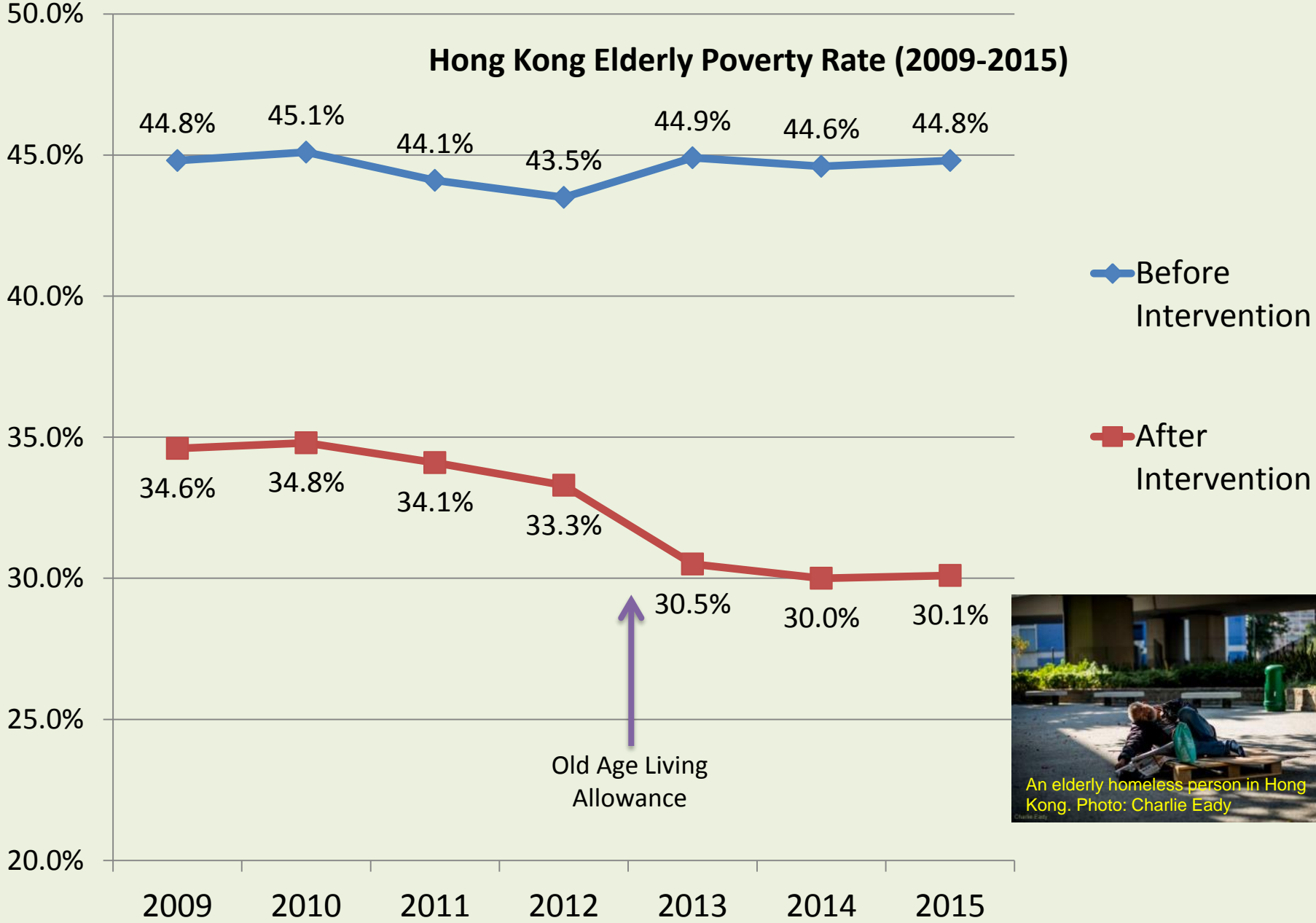


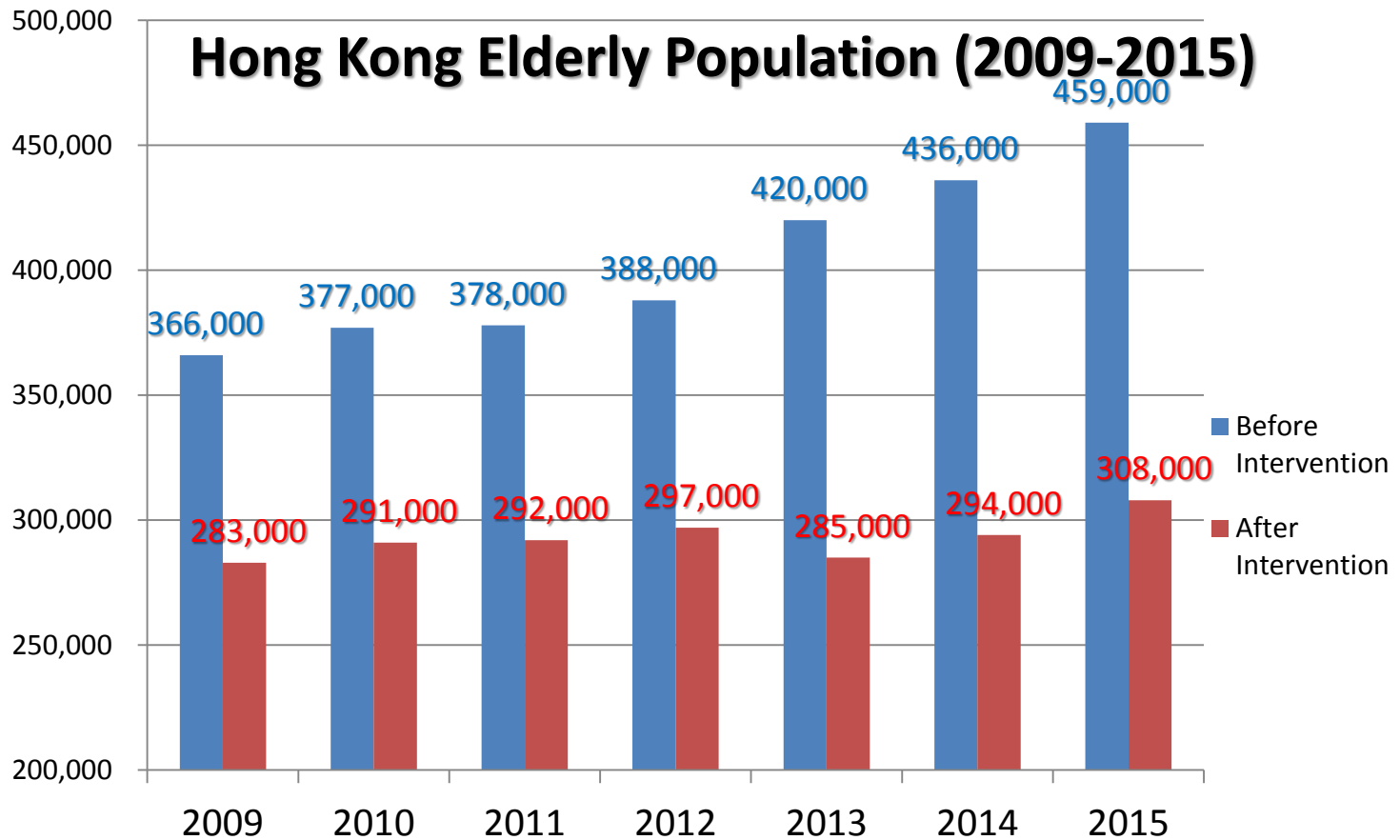
On average, two in every five elderly persons aged 65 are expected to live to **the age of 90 or above**



Note: Projected figures for the years after 2015 Source: Census and Statistics Department

### Hong Kong Elderly Poverty Rate (2009-2015)





# Policy Objectives of Pensions



- ☀ Pensions are a mechanism to reduce the risks of old-age poverty
- ☀ A means to smooth lifetime income to maintain living standards during retirement



# Civil Society in HK



- ✦ In promoting Chinese filial piety and universal human right value, civil society organizations have advocated for a universal pension to provide basic living protection for the elderly in Hong Kong since the 1970s





# Responses of Business & Government



- ☀ Owing to the objection of the business sector, Government adopted a “delay” strategy towards the old age pension
- ☀ Though having conducted several studies and released several consultation papers in the 1980s & 1990s , the final compromising result was the establishment of a Mandatory Provident Fund (MPF) in 2000



# Debates



An old woman recycling cardboard paper. Photo: Tom Grundy.

- ✿ In the last 50 years, debates on what retirement or old age protection system should be set up in HK has never ended
  1. To retain the tradition of providing family support to the elderly vs. to set up a social security system to support the elderly by the state or the society
  2. To set up a collective “social insurance” type pension scheme vs. to set up individual accounts under the provident fund scheme

# Debates



3. Funded by general tax revenue vs. contribution from employer, employee and government
4. “Universal” cover to all the elderly vs. “selective” protection to the elderly who are in need

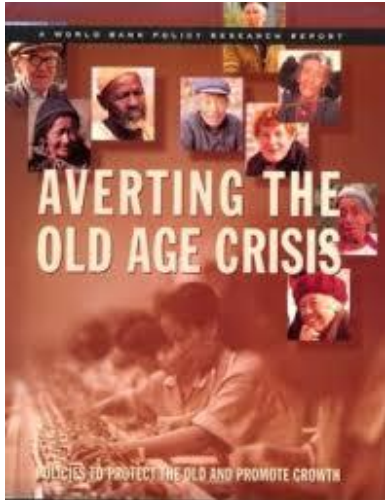
# Incremental & Compromising Implementation of Old Age Protection

- ✦ No consensus between Government & the civil society
- ✦ Strong objection of the business sector and their strategy of deferment
- ✦ Government does not have adequate political will to implement reforms in retirement and old age protection
- ✦ Government has been incremental and compromising in implementing changes of the retirement and old age protection policies



# Current Retirement Protection: MPF

# Mandatory Provident Fund



✦ Follows the reform recommendation of the World Bank (1994): Three-Pillar system of retirement protection

- Fully funded defined contribution (DC) schemes
- Mandatory
- Privately managed

✦ The MPF system requires joint contributions by employers and employees, each contributing 5% of an employee's relevant income to a registered MPF trust scheme



# Problems of MPF

✦ Although the MPF was established in 2000, many problems have been noticed by the public:

- The coverage is limited and does not cover the most needy people. Those retired elderly, homemakers, part of the disabled are not protected by the MPF
- As the total contribution rate is only 10%, a long period of accumulation is needed in order to have enough protection





# Problems of MPF

- High financial risks: under this individual account provident fund system, the risks of the volatile financial market are born by the individuals. The risk of the global financial market is increasing, so thus the risk of MPF



- MPF offsetting mechanism:** Employers are allowed to use their contributions of the MPF to fulfil their legal responsibility for paying the long service payment and severance payment, so the actual amounts of retirement protection are reduced tremendously



# Not a Cure to Elderly Poverty



- 🐛 MPF is a compulsory saving system which redistributes the consumption of an individual in his/her younger stage to his/her elderly stage
- 🐛 MPF does not redistribute resources and risks, those working poor at present will become the poor elderly in the future

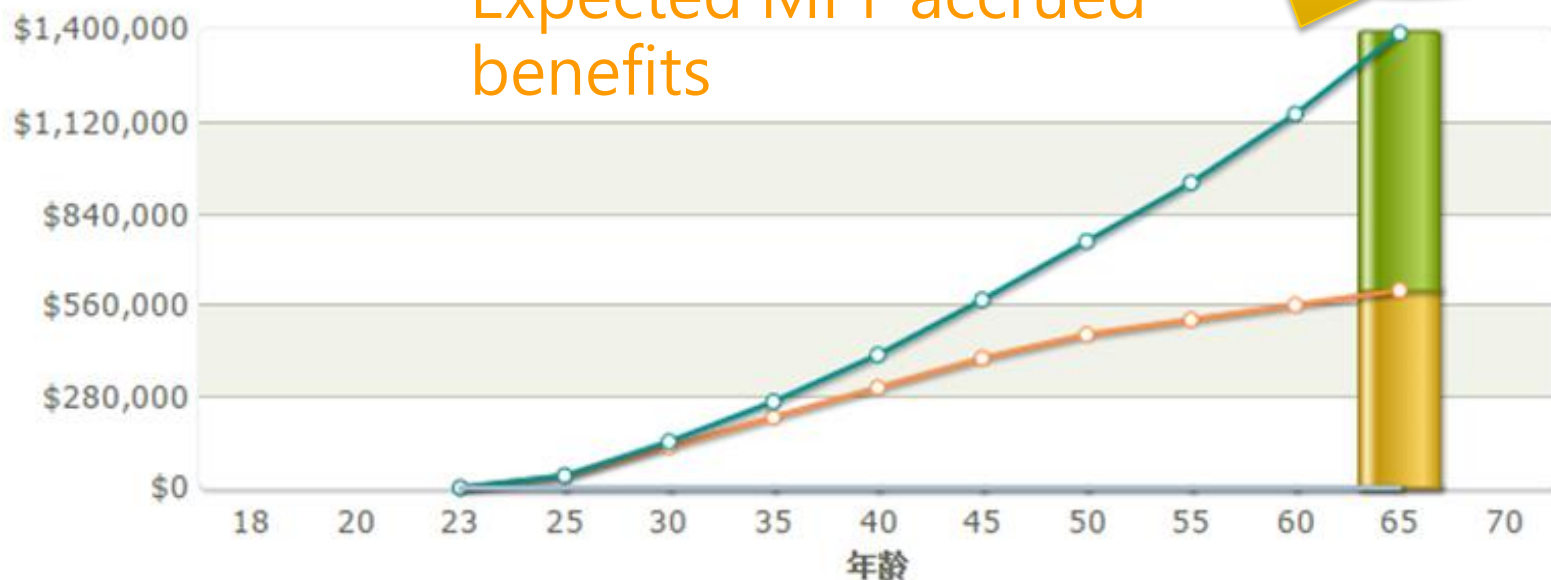


# How Much MPF Will an Employee Have?

Monthly salary  
\$15,000

預期的強積金累算權益

Expected MPF accrued benefits



Your existing MPF balance

現有的強積金結餘

Expected total contributions

預期的強積金供款總額

Expected investment returns

預期的投資回報

(based on today's value)

Expected MPF accrued benefits at 65

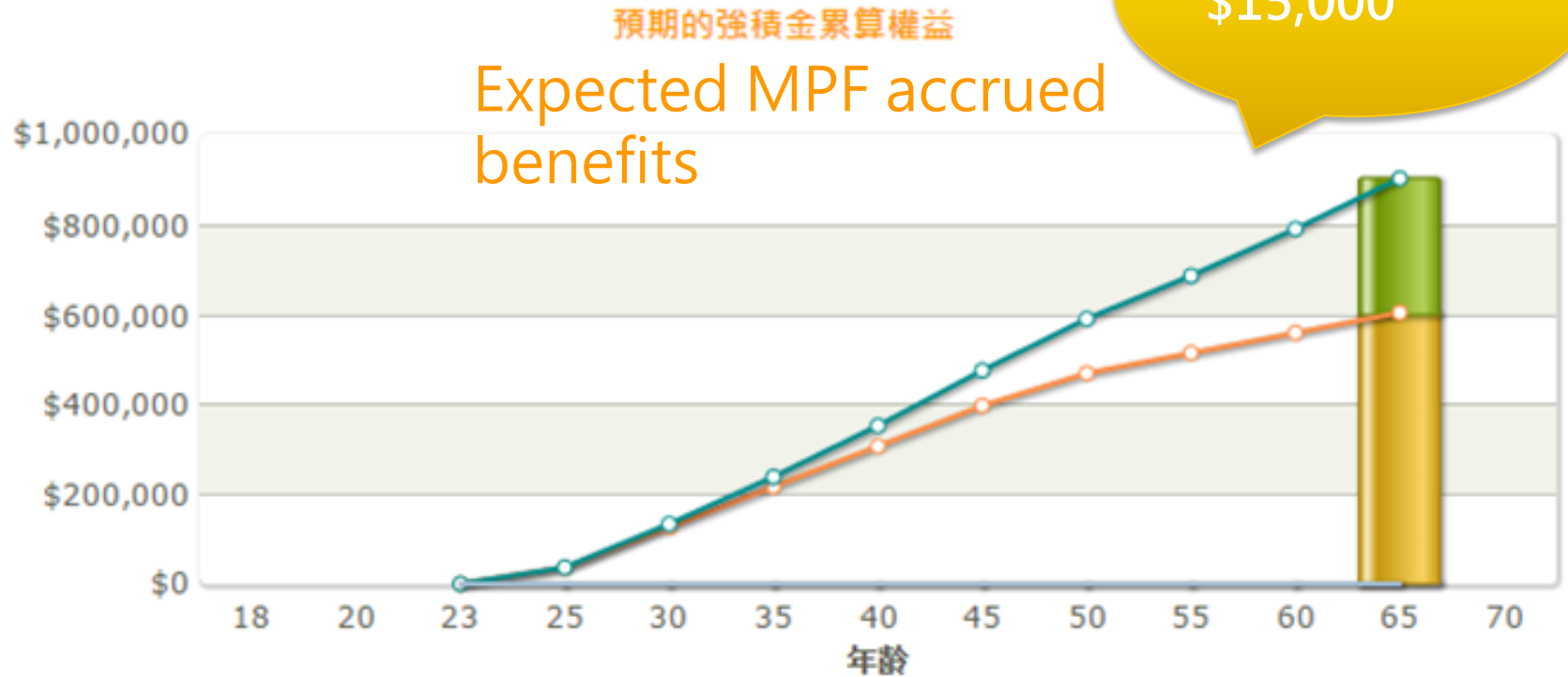
預期你在65歲時的強積金累算權益: **\$ 1,387,507** (以今日價值計算: **\$ 1,387,507**)

Before management fees

Calculator for projecting your MPF accrued benefits by the MPF Scheme Authority

[http://www.mpfa.org.hk/tch/mpf\\_education/mpf\\_calculators/](http://www.mpfa.org.hk/tch/mpf_education/mpf_calculators/)

# How much MPF will you have?



Your existing MPF balance

現有的強積金結餘

Expected total contributions

預期的強積金供款總額

Expected investment returns

預期的投資回報

Expected MPF accrued benefits at 65

(based on today's value)

預期你在65歲時的強積金累算權益：\$ 901,236 (以今日價值計算：\$ 901,236)

After management fees

# Flaws of MPF as Retirement Protection

- For waged workers only; limited benefits to the elderly, the homemakers etc.

High management fees=1.6%  
(30% accrued benefits will be  
used on management fees  
based on contributions over  
40 years)

Offsetting  
mechanism of  
MPF

Investment  
return risks

Longevity risks

# **CURRENT OLD AGE PROTECTION**

# Current Retirement Protection System : Support and Limitations of Various Measures

## Old Age Allowance (OAA)

- Amount: \$1,235
- Non-means-tested (for individuals aged 70 or over)

## Old Age Living Allowance (OALA)

- Amount: \$2,390
- Means-tested : Income < \$7,750; Assets < \$329,000 (effective after 1 May 2017)

## Comprehensive Social Security Assistance (CSSA)

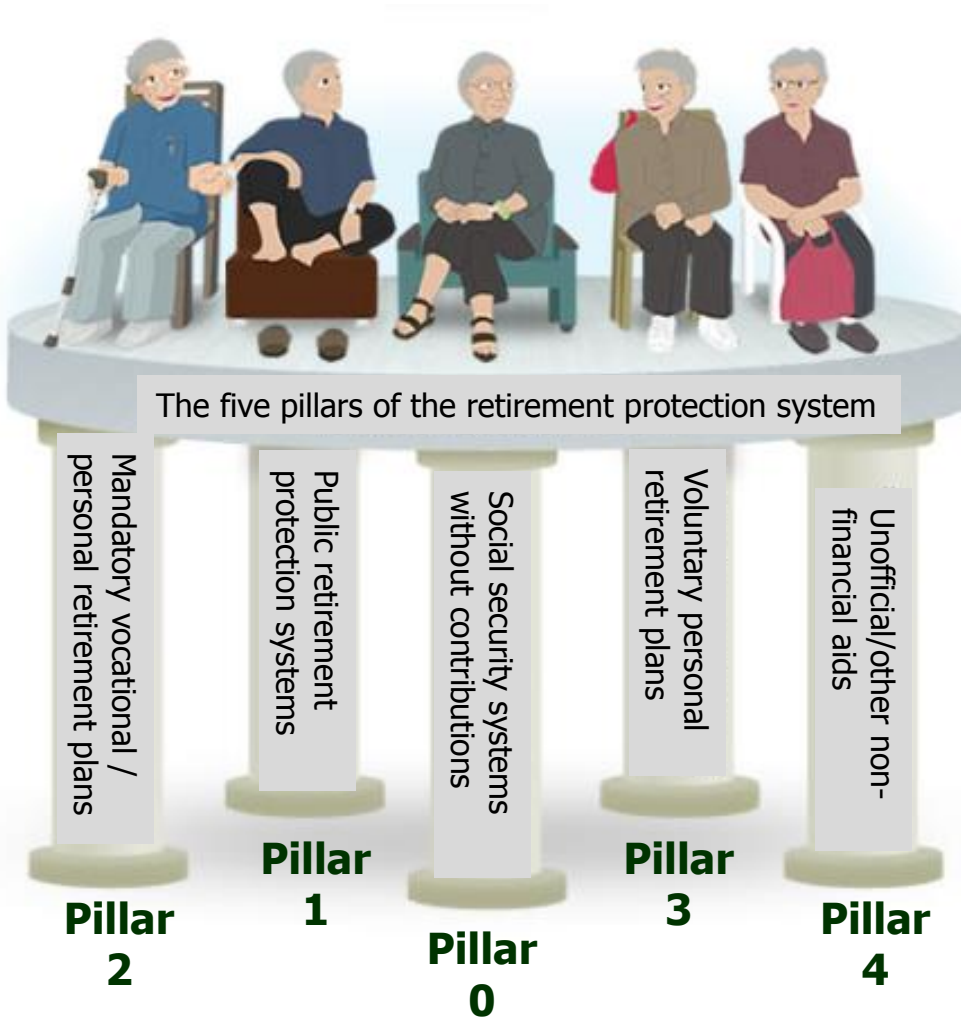
- Amount: \$5,100 on average (including special grants: rent allowance)
- Means-tested: Income < \$5,245; Asset < \$47,000 (singleton)

## Mandatory Provident Fund (MPF)

- Started in 2000; most of the elderly are excluded
- Depending on contributions before retirement and investment return



# Categorization Based on the World Bank's Five-pillar Model



## Hong Kong's situation

### Pillar 0

Old Age CSSA, Old Age Living Allowance, Old Age Allowance

### Pillar 1

**None**

### Pillar 2

MPF

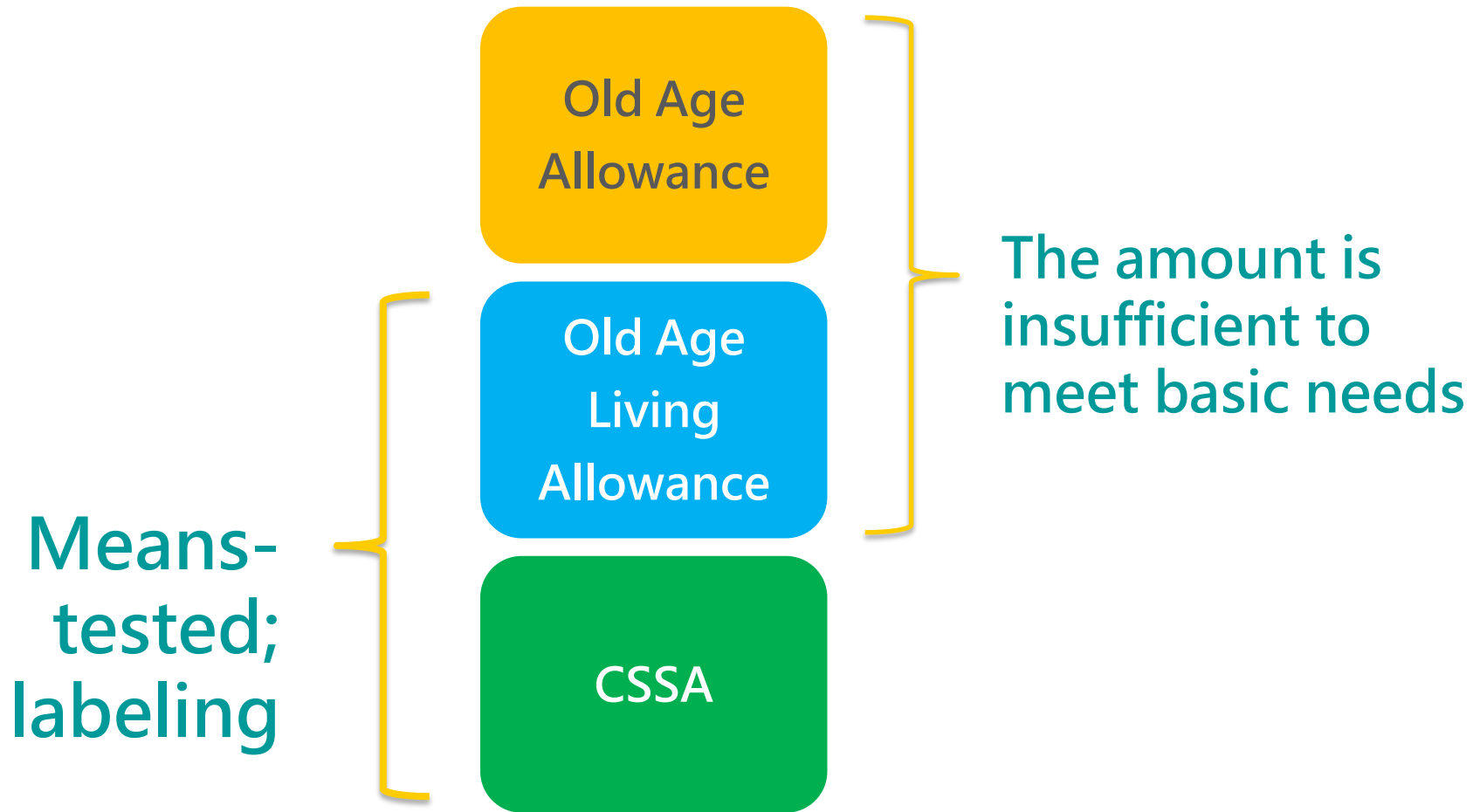
### Pillar 3

Voluntary savings plans

### Pillar 4

Family's support and other non-financial aids

# Current Retirement Protection System



# Retirement Protection at the Crossroads

**Universal  
Pension  
Scheme**

**Public  
Annuity  
Scheme**



**Targeted  
Social  
Protection**

# Civil Society Demands Old Age Pension



## ✦ Viewing:

- High management fees and low returns rate of MPF; and
  - Low level and labelling effect of other mean-tested welfare protection
- ✦ Civil society still urges to set up other old age protection scheme to supplement MPF
- ✦ Debate on what retirement and old age protection system should be adopted is continuous and receives lots of attention

# Alliance for Universal Pension (AUP)



- ✪ The Alliance for Universal Pension (AUP) was formed in 2004 to advocate Universal Old Age Protection in Hong Kong
- ✪ AUP is formed by grassroots, labour, elderly, women, youth, religious and social service organizations
- ✪ In last 13 years, members of AUP increased from 40+ to 80+
- ✪ AUP consolidates the strengths and opinions of civil society and proposed an concrete plan of Universal Old Age Pension Scheme
- ✪ Through discussions, public forums and research studies to develop their proposal in solidarity

# Recent Debates on Retirement Protection

- ✦ Civil society expected consultation on retirement protection was expected to be conducted shortly after the current term of government was inaugurated and the setting up of a new Commission on Poverty (CoP)
- ✦ Government and CoP decided to conduct consultation after the completion of the commissioned research study by Professor Nelson Chow of HKU
- ✦ In August 2014, Professor Chow's team released the "*Study on the Future Development of Retirement Security in Hong Kong*", which suggests setting up a universal retirement protection



# Future Development of Retirement Protection in Hong Kong (Chow, et al. 2014)

- ✦ Setting up of the demo-grant: universal old age living protection is not income-linked retirement protection
- ✦ Level of demo-grant: \$3,000
- ✦ Source of capital:
  - Half of the annual expenditure = current OAA, OALA, and standard rate of elderly CSSA
  - One-off fund from government: \$50 billion
  - Payroll old age tax from employers and employees, 3 levels: below \$10,000, 1%; \$10000-\$20000, 1.5%; over \$20000, 2.5%





# Retirement Protection Forging Ahead Consultation Document (Dec 2015 by Commission on Poverty)



- ✿ After delay for one and a half year, the consultation paper “Retirement Protection Forging Ahead” was issued in Dec 2015.
- ✿ The government did not accept the proposal of the HKU team, led by Prof Chow but extended the projection of the different proposal by civil society organizations and parties from 2046 to 2064.

# Scholars' Proposal (Nov 2015)



❗ Civil society organizations and many scholars criticized that the Consultation Document 2015 had set a default position, preferring poverty relief and rejecting the idea of universal retirement protection

❗ They rejected to join the official consultation events but insisted to engage in advocacy campaign outside the official channels



❗ Based on the new population projection to 2064 released by the government in Oct 2015, 160 scholars combined the basic elements of the AUP proposal and the projection model of HKU team to propose a Scholars' Proposal on Old Age Pension in Nov 2015

❗ AUP and the 160 scholars finally merged their two respective proposals to form the "Universal Pension Scheme (UPS) 2064" in May 2016



# Government's Consultation and Voices of People

- ✦ Covering a wide range of topics, government's consultation was carried out from December 2015 to June 2016
- ✦ The most controversial topics included whether the **Universal Old Age Pension Scheme** should be implemented in the future



The consultation document can be downloaded on this website:  
<http://www.rp.gov.hk/tc/index.php>

# Broad Scope of Consultation

<u>Pillar 0</u>	How to strengthen the <b>social security system</b> (CSSA, Old Age Living Allowance, Old Age Allowance, Disability Allowance)?
<u>Pillar 1</u>	Targeted to <b>“Those with financial needs” or “regardless of rich or poor”</b> ?
<u>Pillar 2</u>	Whether to support the suggestions on MPF reform direction and the handling of offsetting? Whether to encourage public education on MPF understanding and retirement protection planning? How to carry out related plans?
<u>Pillar 3</u>	Encourage <b>voluntary savings</b> ?
<u>Pillar 4</u>	How to <b>encourage family’s support to the elderly</b> ? How to ensure the sustainability of <b>public services for the elderly</b> ? How to plan?



Others: Which groups are to be cared for? Should the feasibility of a **public annuity scheme** be looked into? Whether to support retired old people to increase incomes by **letting out their properties**?

# Universal Pension Scheme (UPS) 2064

## Proposal by scholars

Financing Arrangements	Contents
<b>Amount of Pension</b>	\$3,500 (At 2016 price, non-means-tested)
<b>One-off injection from government</b>	\$10 billion (At 2016 price)
<b>Extra recurrent expenditures by government*</b>	None
<b>Social security transfers</b>	The original social security schemes for persons age 65 or older (except rent allowances and other allowances, as well as Disability Allowance)
<b>Extra profit tax for corporations (only for those corporations with annual profits higher than \$10 million)</b>	1.9% (\$11.4 billion as fixed at 2016 price)
<b>Monthly contributions by employers/employees</b>	5% of salary (2.5% each by employers and employees respectively), transferable from the MPF accounts
<b>The upper and lower limits of salary for making contributions</b>	Contributions made by employees (Upper limit: \$30,000) Those with salary lower than \$6,500 are exempted  Contributions made by employers for employees (Upper limit: \$30,000/ no lower limit)

# Universal Pension Scheme (UPS) 2064

## Proposal by Scholars

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\* Government's contributions to civil servant pensions as employer

# Assumptions Used in the Projections of UPS 2064 Proposal

Dimensions	Projections
<b>The sizes of population and age structures in the next 50 years</b>	According to the results of 2015-2064 population projections by Census and Statistics Department
<b>Actual Investment Returns Rate</b>	2%
<b>The distribution of wages and growth rate</b>	In accordance with the distributions in 2013; wages change by the inflation rate
<b>Growth rate of profit tax</b>	In accordance with inflation rate
<b>Number of pension recipients #</b>	All Hong Kong Permanent Residents aged 65 or older



# Sustainability of UPS 2064 (At 2016 price)

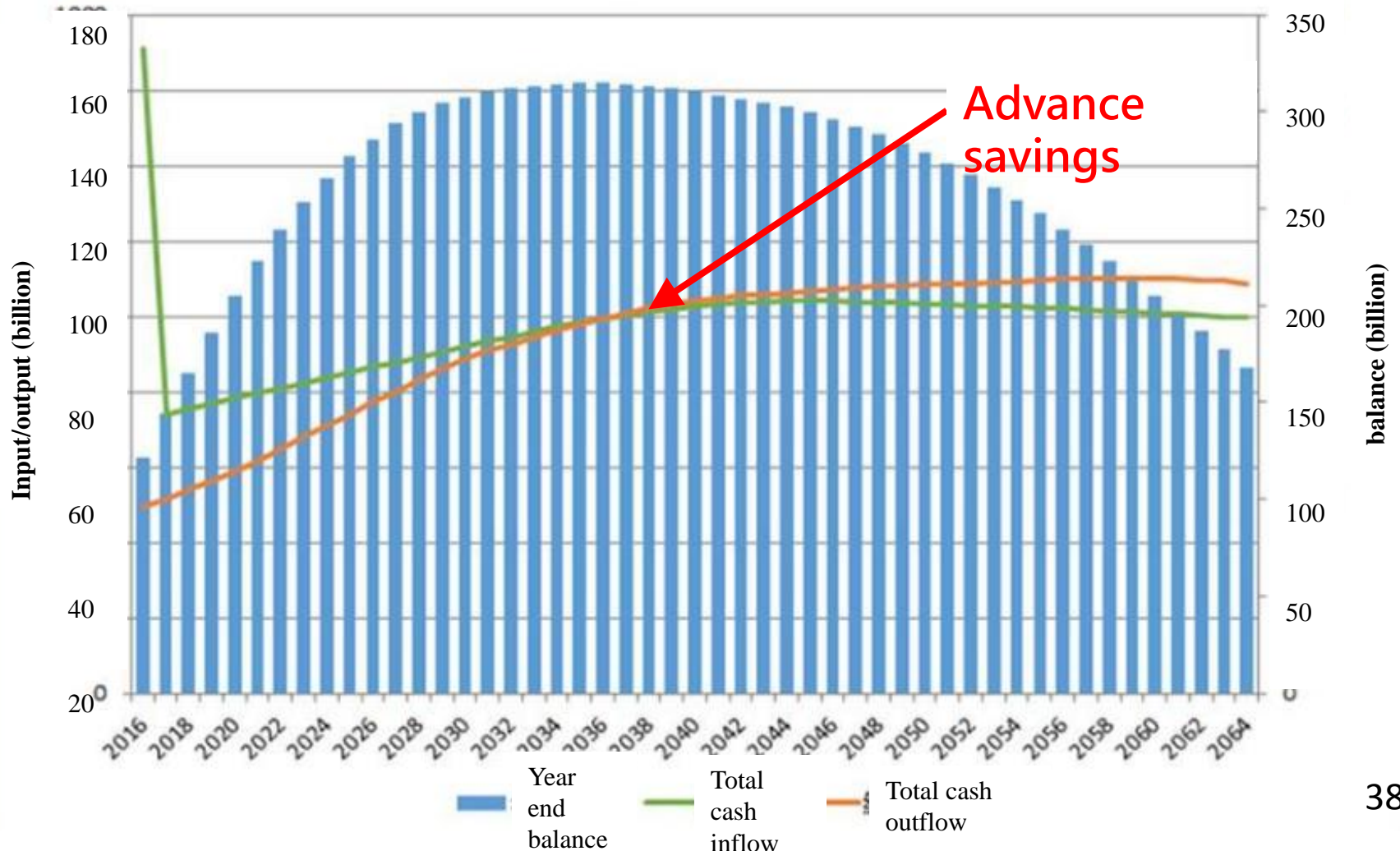
## [Assuming 100% of seniors are receiving it]

Year	Cash Inflow (\$ billion)						Cash Outflow (\$ billion)			Net Inflow	Ending Balance
	Government Injections	Employers/ Employees Contributions	Transfer from Elderly Social Security Schemes #	Extra Profit Tax	Interests	Total	Pensions	Administrative Costs	Total		
2016	100	36.6	22.9	11.4	0	170.9	49.3	0.27	49.5	121.4	121.4
2026	0	34.6	34.9	11.4	5.5	86.4	76.9	0.27	77.1	9.3	285.9
2036	0	33.1	48.5	11.4	6.3	99.3	99.1	0.27	99.4	-0.1	314.6
2046	0	32.5	54.1	11.4	6.0	104.0	107.0	0.27	107.3	-3.3	296.2
2056	0	30.7	55.0	11.4	4.9	102.0	109.5	0.27	109.8	-7.8	239.4
2064	0	29.6	55.2	11.4	3.5	99.6	108.5	0.27	108.7	-9.1	168.2
Annual Average	2.04	32.9	46.0	11.4	5.16	97.4	93.8	0.27	94.0		



# Financial projection of the UPS 2064 Proposal (2016 commodity prices)

Implementation from 2016 (payout of \$3,500)



# Analysis of Financial Arrangements of the UPS 2064 Proposal (2016-2064)

Financial source	Amount continuously given (2016 commodity prices)	
	Value	Monthly Amount
		Fine-tuned
Transfer from government expenditure on elderly social security#	\$46 billion per year on average	\$1,650
One-off injection by the government	\$100 billion	\$120
Additional company profits tax	1.90%	\$430
Transfer of MPF contribution or extra contribution (employee and employer each shoulders 2.5% contribution)	Total 5%	\$1,300
<b>Total monthly payout</b>		<b>\$3,500</b>
<b>Ending balance</b>		<b>\$168.2 billion</b>

# excluding elderly Disability Allowance (Normal and Higher) and housing or other grants in the CSSA system

# Government Responses – Speech of Carrie Lam (Chief Secretary, Chair of CoP)\* on 12/4/2016

## Against Universal benefits



- *But a universal pension at a monthly grant of \$3,230 would require an immediate outlay of **\$22.6 billion** and incur an additional aggregate cost of **\$2,395 billion** over the **next 50 years**. To finance this outlay, the Government inevitably has to **raise taxes** and the quantum of such increases must pay due attention to their impact on Hong Kong's **economic competitiveness** and hence **growth**. Also, raising taxes does not necessarily guarantee increase in revenue if the resultant tax rates have become prohibitively high. Worse still, Hong Kong would **lose her appeal and attraction as a place for investment**.*

*\*Hong Kong Retirement Schemes Association and Association of Superannuation Funds of Australia 5th Asia-Pacific Pensions Forum, 12 April 2016*

# 2017 Policy Address: Final Decision on Retirement Reform

- To enhance the effectiveness of each pillar while maintaining the sustainability and financial viability of the system:
  1. MPF: enhanced to maximize the protection for employees by abolishing the “offsetting” of severance payments (SP) or long service payments (LSP) with MPF contributions. (But, there is no solution to the high management fee issue.)
  2. Social security: strengthened to perform well the function of a safety net by adding a new scheme of Higher OALA (non-funded, means-tested)
  3. Assistance should be rendered to the elderly to meet their medical expenses.
  4. Financial products should be developed to help the elderly make good use of their assets to increase the stability of their post-retirement investment income (e.g. Public Annuity; Silver Bonds).

迎難而上 發展經濟 改善民生

Let's rise to the challenge  
Boost the economy  
Improve people's livelihood

2017年施政報告及2017-18年度財政預算案公眾諮詢  
Public Consultation for the 2017 Policy Address and 2017-18 Budget

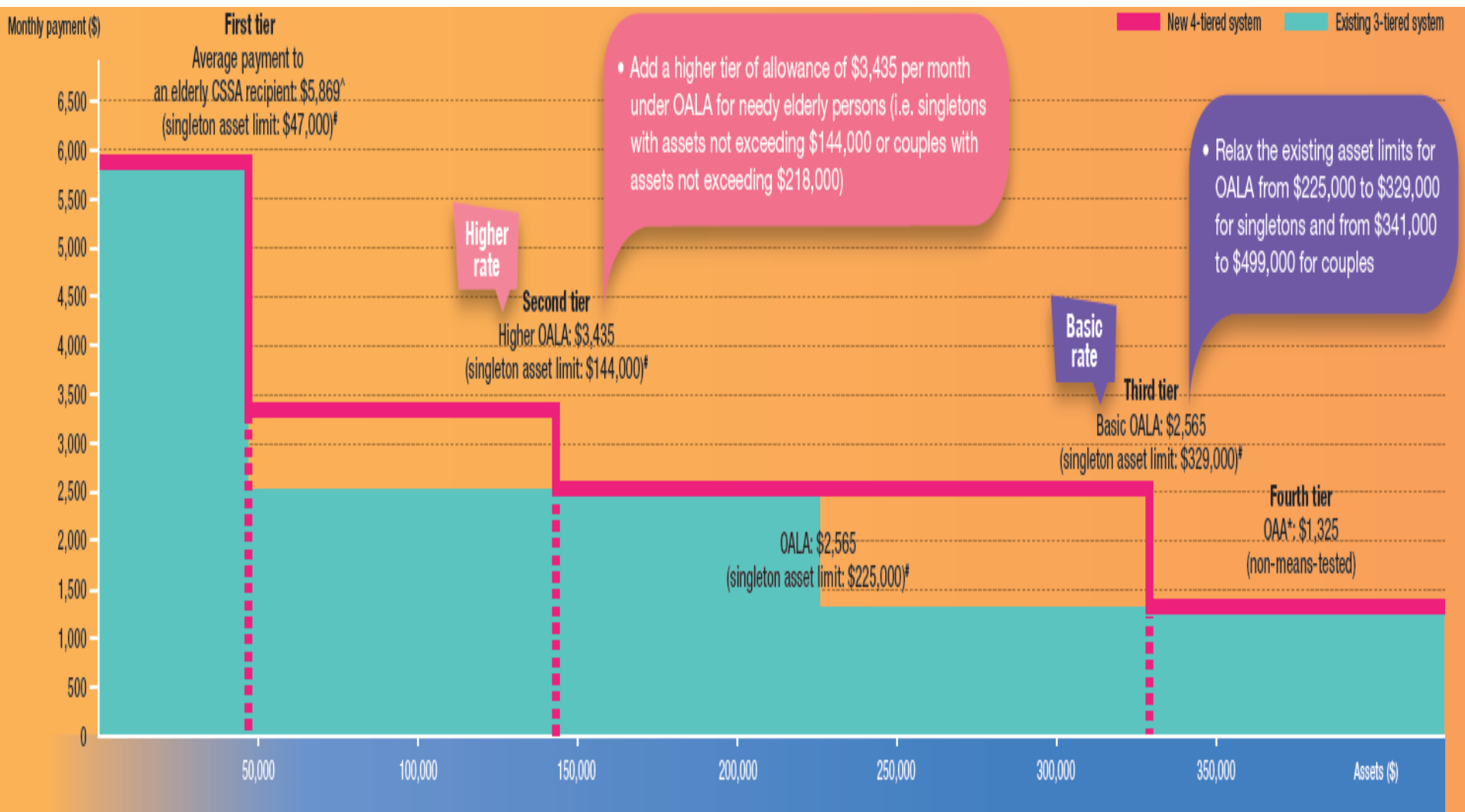
重要日期 Key Dates

2017年施政報告 2017 Policy Address: 18.01.2017  
2017-18年度財政預算案 2017-18 Budget: 22.02.2017

# Number and % of Elderly Covered by the New Suggestions of Policy Address 2017

Social Security Programmes	Existing	Suggestion (Policy Address 2017)	Existing	Suggestion (Policy Address 2017)
	% of Elderly aged 65 or above		Number of Elderly aged 65 or above	
CSSA/Higher OALA	13%	43%	153,000	504,000
Old Age Living Allowance (OALA)	37%	17%	434,000	200,000
Old Age Allowance (OAA)	19%	14%	223,000	164,000
Not Eligible for all the above allowance or only receiving Disability Allowance (DA)	23%	18%	270,000	211,000
Only Eligible for OAA but do not receive	8%	8%	94,000	940,00
<b>Total</b>	100%	100%	1,170,000	1,170,000

# New Measures for Elderly (Policy Address 2017)



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

# UPS 2064 Proposal Vs. Government 2017 Proposal

	UPS 2064 Proposed by Scholars	Suggestions of Policy Address 2017 Proposed by Government
Who get it?	Individuals aged 65 or over, Non-means test	Individuals aged 65 or over Asset limit: \$144,000 for elderly singleton
In what amount?	\$3,500 (adjusted yearly based on inflation)	\$3,435 (adjusted yearly based on inflation)
Average annual expenditure of government	Approximately 46 billion	Approximately 12.15 billion
Where is the money from?	Financed by multiple sources	General tax revenue



# Proposed Public Annuity Scheme by Hong Kong Mortgage Corporation (HKMC)

## Premium care

HKMC Life Annuity Scheme

*Tentative key design features\**

Issue age	Aged 65 or above
Minimum premium	HK\$50,000
Maximum premium	HK\$1,000,000 (to be applied to each annuitant on a cumulative basis)

Tentative estimated levels of monthly payout (based on internal rate of return of 3% to 4%)

*At the entry age of 65, for each HK\$100,000 premium*

	3%	4%
Male	about HK\$500 (around 6%)	about HK\$580 (around 7%)
Female	about HK\$450 (around 5.4%)	about HK\$530 (around 6.4%)

*\*For reference only, subject to independent external validation and calibration, and approval by insurance industry regulatory authority*

Source: Hong Kong Monetary Authority

SCMP

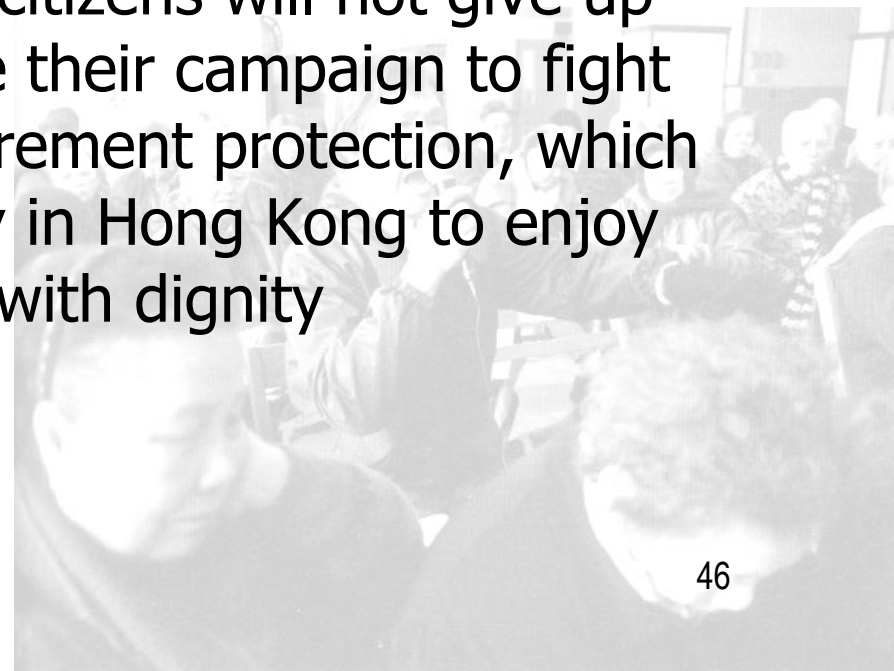
- Guaranteed return by HKMC
- Those who live longer will benefit the most from the scheme because the HKMC will continue to pay until the person's death
- An investor would get back all the money he or she has initially invested within 15 years. If they live longer than that, they earn extra money.



# Pension Reform at the Crossroads



- ❖ The issue of inadequate retirement protection and the rise of elderly poverty in Hong Kong has been disturbing Hong Kong citizens for a few decades
- ❖ Once again, the citizens will not give up and will continue their campaign to fight for universal retirement protection, which enable all elderly in Hong Kong to enjoy their later years with dignity



# Forging Ahead



- ✿ The Universal Pension Scheme 2064 as proposed by the 160 scholar, not only would have a function of poverty relief, but also would provide a basic stable income for most Hong Kong citizens whose savings may not afford their retirement which could last for 20 to 30 years
- ✿ For the elderly, the UPS 2064 scheme supports their daily lives, relief their concerns and enable them to enjoy their later years. For young people, they could take this as purchasing a long-life insurance that could lower the individual investment risks associated with MPF

# Forging Ahead vs. Dead-End



✦ Implementation of the universal pension system is a social infrastructure that could build up a sense of safety and belonging, as well as facilitate social cohesion for the Hong Kong society



✦ As one of the wealthiest societies in the world, and having a large amount of financial reserve and assets, Hong Kong is fully capable to implement the proposed UPS 2064 to protect the basic retirement living of its citizens

✦ If the government makes further delays in realizing the UPS2064 or other universal retirement protection, it is leading HK towards a dead-end

# Thank you!

