

## Executive Summary

Over the past few years, the reform of retirement protection system in Hong Kong has attracted considerable discussions in the community. During public discussions, divergent views have been expressed regarding the introduction of a universal retirement protection scheme. The Bauhinia Foundation Research Centre (the Centre) is of the opinion that society should provide better assistance to the several hundred thousand poor elderly with pressing needs. We should also think about how to build up robust retirement protection for subsequent generations, considering the increasingly acute ageing population situation. In this regard, the Centre conducted in-depth research on the pros and cons of existing retirement protection measures in Hong Kong. Making references to overseas experiences, the Centre proposes relevant recommendations to enhance the retirement protection system and ensure that the elderly can live comfortably in their twilight years.

### **Ensure the basic needs of the elderly are met:**

#### **Review the elderly CSSA**

2. A sound retirement protection system should provide financial security to the elderly through different means. First, the elderly's basic needs must be met. The Comprehensive Social Security Assistance (CSSA) Scheme, which is financed and administered by the Government, provides a safety net of last resort to needy individuals and families. Nonetheless, some elderly with genuine financial needs may be excluded from the safety net due to the gate-keeping mechanism whereby CSSA applicants are subject to means testing. In view of this, **the Centre suggests that the Government reviews existing eligibility criteria for the elderly applying for CSSA.** In particular, the Government should consider exempting the requirement for children to sign a non-provision statement, so as to allow the elderly to apply for CSSA on an individual basis and to cover more needy elderly. When assessing the amount of CSSA payable to the elderly, the Administration should also consider disregarding part of the cash assistance from their children to encourage children to support their parents and improve the quality of life of the elderly.

## **Alleviate the financial burden on the elderly:**

### **Set up a 'Public Pension'**

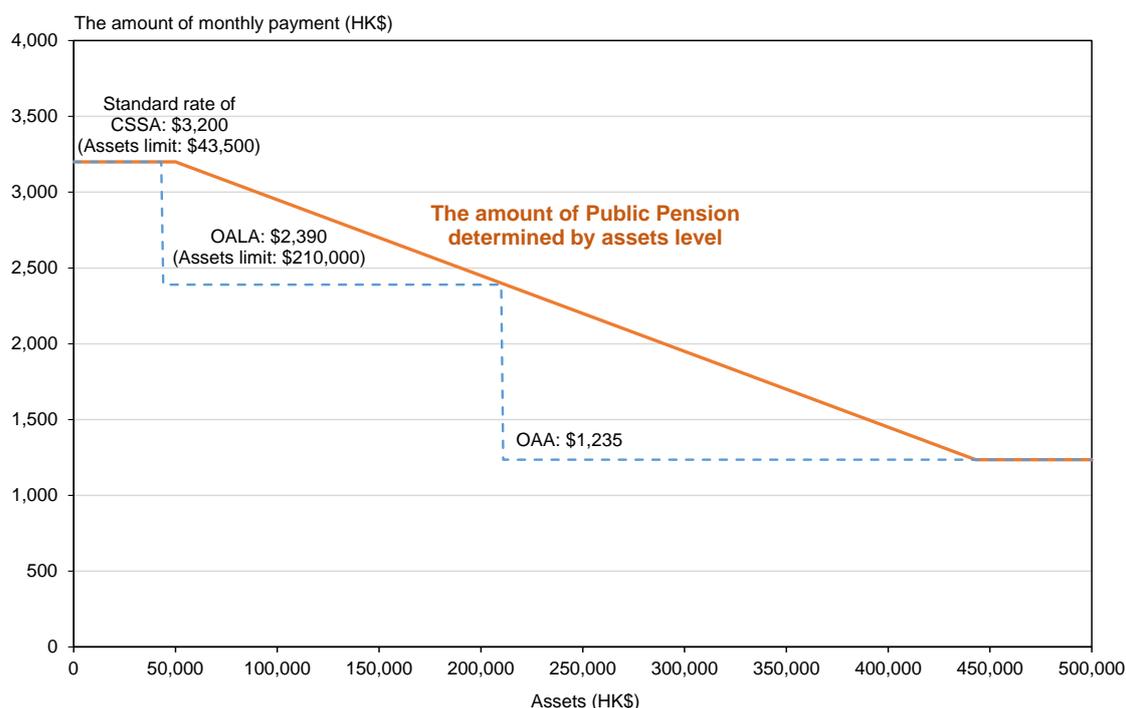
3. Currently, relatively well-off elderly may receive a lower amount of allowance, namely Old Age Living Allowance (OALA) which aims at supplementing the living expense of the elderly, or Old Age Allowance (OAA) which is largely a token of respect for the elderly. Although the related allowances are not intended to be entirely relied upon for subsistence, different parties proposed universal retirement protection schemes with higher amounts of payment in view of the limited assistance of the current allowances. **The Centre agrees that society should improve support to the needy elderly. To ensure that limited public resources are reasonably redistributed to the elderly most in need, a means-test must be put in place.** Through the means-test, the Government can objectively identify people in genuine need and provide appropriate assistance in accordance with their actual circumstances. In so doing, the Government can better ensure the long-term stability and sustainability of public finance.

4. **With the aim of providing better support to the needy elderly, we recommend the Government to set up a 'Public Pension' to replace the existing OALA and OAA. A full public pension payment of \$3,200 per month will be paid to those aged 65 or above, with total income not more than \$5,000 per month and net assets not more than \$50,000.** The amount of the public pension will be adjusted by a sliding scale according to the financial situation of the elderly. The amount of payment will be deducted by \$0.333 and \$0.005 for each dollar above the respective income and asset limits, with the lower amount applied and a floor amount set at \$1,235 (i.e. the amount of existing OAA).

5. Compared with the current amount of allowances under OALA and OAA, 'Public Pension' would significantly improve the financial support to the elderly. It is estimated that over 60% of the elderly will benefit from the said pension. The recommendation would not only help alleviate the financial burden on the elderly whose savings just exceed the CSSA's asset limit, but also improve the quality of life of those with difficult financial conditions. Specifically, while those possessing assets of \$50,000 can only get \$2,390 under OALA, the proposed public pension payment is \$3,200; and while those who own assets of \$250,000 are receiving \$1,235 under OAA, the amount of proposed public pension is \$2,200. In fact, **'Public Pension' not only strengthens the**

**protection of the needy elderly in a more equitable way, it is also visibly more sustainable and affordable than the universal retirement protection proposals advocated in society.** If the Government is willing to inject \$10 billion as one-off seed money on top of the current welfare expenditure on the elderly, along with an additional 1% contribution by both employers and employees based on employee's income, the balance of 'Public Pension' will remain positive in the next 50 years and reach \$200 billion in 2064.

### The amount of Public Pension determined by assets level



Source : BFRC's estimates.

### **Strengthen individual retirement protection:**

#### **Improve adequacy, efficiency and robustness**

6. The aforementioned recommendations help build a more comprehensive public retirement protection system which enhances financial assistance to the elderly and reflects the Government's concern and commitment to supporting the elderly. Apart from focusing on the current generation of elderly, the Government should also explore ways to assist citizens so they can be better prepared financially for their retirement. The Mandatory Provident Fund (MPF) Scheme is a personal savings account for retirement protection. Considering the meagre amount of protection under MPF, along with its low administrative efficiency and the risks involved in

withdrawing the accrued benefits in a lump sum, **the Centre recommends the Government to: (i) abolish the MPF offsetting mechanism and increase employers' and employees' MPF contributions in the long run to strengthen the retirement protection of employees; (ii) simplify the administration procedures to reduce administration costs, e.g. expeditiously finalise the setup of the centralised electronic platform and database, and implement the MPF full portability arrangement to enhance employees' right of choice; and (iii) promote the development of annuity market and encourage the purchase of life annuity to reduce the risk of inadequate retirement protection due to longevity, inflation, etc.**

7. On the other hand, given the low participation rate and meagre amount of voluntary contribution under MPF, the Centre holds the view that the Government should make concrete efforts to encourage different parties to increase voluntary contribution and enhance personal savings for better retirement protection. Specifically, the Government should actively promote employers' voluntary contribution and consider granting more tax concessions to incentivise enterprises to improve employees' retirement benefits. Meanwhile, **the Centre recommends the Government to set up a matching grant to encourage individual voluntary contribution, with different matching ratios based on income levels.** In order to target the assistance at lower income earners, the corresponding matching ratio should be higher. For instance, the Government could match \$0.5 for every dollar contributed by the applicants with monthly income lower than or equal to \$10,000, while the matching ratio would be reduced in proportion for higher income earners.

8. Given the limited support from existing occupational related retirement protection, and the fact that about a third of population is between 45 and 64 years of age and will gradually leave the labour market in the next 20 years, strengthening the MPF system and encouraging voluntary contribution is imminent, so that people can accumulate sufficient savings to support their retirement life when they are still at work. In particular, abolishing the MPF offsetting mechanism and encouraging voluntary contribution through a government matching grant help improve the retirement protection of lower income earners. When the MPF system develops and matures, and the public's awareness towards retirement savings gradually increases, the accumulation of personal savings will help build a more comprehensive, holistic and robust retirement protection system and enable the future generations of

elderly to be less reliant on public financing retirement protection schemes. This will lessen the financial burden on the Government as a result.

**Enable the elderly to have flexible financial planning:**

**Improve the Reverse Mortgage Programme**

9. The Government, the corporation and the individual all have shared responsibilities with regard to retirement protection. Family also plays a vital role in protecting the elderly during their retirement life. Nowadays, society as a whole still attaches great importance to traditional core values of supporting elderly family members. However, as Hong Kong faces changes in family structure, social and cultural values, etc., the family solidarity has been eroded. Without sufficient support to meet daily expenses, the elderly will have to rely on their own means. One of the ways to alleviate this burden is to help the elderly who are asset rich turn their residential properties into a source of stable income under the Reverse Mortgage Programme so as to improve their quality of life.

10. While the Reverse Mortgage Programme has been launched for a short period of time, the responses have yet been encouraging. **The Centre recommends the Hong Kong Mortgage Corporation Limited to relax the collateral requirements of the Reverse Mortgage Programme, for example by accepting subsidised housing with unpaid premium as collateral and life insurance policy as independent collateral, to enable the Programme to cover more eligible elderly.** In addition to continuing to strengthen the promotion of relevant programmes, the related authority should introduce more diversified plans to meet the different needs of borrowers, for instance, an inflation-adjusted annuity plan which helps borrowers protect the purchasing power of the payout from being eroded by inflation; a flexible line of credit arrangement which allows borrowers to decide the loan disbursement based on their needs rather than being limited to a fixed monthly annuity; and relaxation of the restrictions on repayment of loan in full which allows borrowers to repay a part of the outstanding loan without penalty, thereby reducing borrowing costs.

**Ensure a carefree life for the elderly:**

**Enhance the retirement protection system**

11. To address the insufficiency of Hong Kong's existing retirement protection measures, the Centre proposes specific policy recommendations

based on the situations 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 complement effect of different measures amid the changing demographics so as to enhance the retirement protection system and ensure better support to the elderly. It is worth noting that resource reallocation may inevitably lead to a zero-sum situation. We should encourage shared responsibilities among individuals, families and society to provide better retirement protection to the elderly and improve social cohesion.

12. While the structural reform of retirement protection system is important, it is also essential to improve public education regarding elderly care, community support, financial planning, etc. Elderly needs are not confined to financial or material assistance, they also require concern and care from society. In order to promote senses of worthiness, belonging and security amongst the elderly while providing them a decent home to live, we need to work with sectors of various fronts, such as healthcare, housing and residential homes, working opportunities, and social capital. In this way, we can ensure that the elderly can enjoy their remaining years in dignity, without fear of abject poverty.

#### **Overview of the policy recommendations**

<b>Retirement protection measures</b>	<b>Policy recommendations</b>
CSSA	1. Review the eligibility criteria of the elderly CSSA and consider allowing the elderly to apply for CSSA on their own and disregarding part of the financial support from their children
Public Pension	2. Set up a 'Public Pension', with the amount determined by the income and asset levels of the elderly
MPF	3. Abolish the MPF offsetting mechanism and increase employers' and employees' contributions in the long run 4. Improve administration procedures and enhance rights of employees to choose MPF schemes 5. Promote the development of annuity market and encourage the purchase of life annuity
Voluntary contribution	6. Encourage enterprises to improve employees' retirement benefits and consider increasing tax incentive 7. Encourage individual voluntary contribution through a government matching grant
Reverse Mortgage	8. Relax the collateral requirements and introduce more diversified plans