Retirement Protection Forging Ahead

Consultation Document

Commission on Poverty
December 2015

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Note: The Report refers to the research report submitted to the Commission on Poverty by the research team led by Professor Nelson Chow in August 2014.

Preface

Retirement protection was last widely debated by the Hong Kong community in the early 1990s. With the enactment of the Mandatory Provident Fund (MPF) Schemes Ordinance by the Legislative Council in 1995, a retirement savings system mandating employer and employee contributions was established in 2000. This was a milestone for the development of retirement protection in Hong Kong.

Given the existing contribution rates and scheme coverage, the MPF alone cannot fully address retirement protection for the elderly. In fact, Hong Kong has adopted a multi-pillar model advocated by the World Bank. Under this model, working people can use mandatory MPF contributions from employers and employees to prepare for their retirement. Elderly people also enjoy the protection offered by other pillars such as social security schemes funded by tax revenue, voluntary savings or family support, as well as various housing, healthcare and welfare services provided by the Government. Despite these, there have been repeated calls from the community over the years for a universal retirement protection system (i.e. a uniform monthly pension for all those aged 65 or above regardless of financial means).

Poverty alleviation and care for the elderly are key policy priorities of the current-term Government. Retirement protection and elderly poverty are closely linked. The Chief Executive stated in his Election Manifesto that the Government would study "how to introduce short, medium and long-term measures to solve the problem of elderly poverty and improve the present social security and retirement protection systems". While the Old Age Living Allowance introduced by this Government in 2013 already benefits over 420 000 people, we remain determined and committed to enhancing the well-being of our elderly people. As such, the Commission on Poverty (CoP) has been tasked to identify ways to enhance retirement protection in Hong Kong with a view to better addressing the financial difficulties facing elderly people. This is the background of this public consultation exercise.

This consultation on retirement protection has several unique features:

(1) The consultation is carried out under the name of the CoP. The stance and contents of this consultation document have been endorsed by CoP members from a diversity of backgrounds. As the Chairperson of the CoP, I have endeavoured to be objective and impartial throughout the deliberations, and guided discussions in a way to help members build consensus. Yet, there remain divergent views on some of the more controversial issues. These have been presented in full and truthful terms in this consultation document;

(2) Likewise, in handling social issues with such far-reaching implications, as a responsible government, we have to clearly explain the Government's position to Hong Kong people. In a nutshell, the Government has reservations about any options that are not means-tested and apply equally to all the elderly regardless of being rich or poor. Nonetheless, we agree that the existing retirement protection system has room for improvement. We naturally do not wish to see our retirement protection efforts coming to a standstill, and for Hong Kong, once again, to be paralysed by polarised views;

(3) As our retirement protection system will affect the interests of many generations, the consultation exercise has to penetrate deeply into all strata, sectors and age groups, in particular young students. Therefore, we have set aside a relatively longer period of six months to listen to a wide cross-section of public views. My government colleagues

and I, together with CoP members, will reach out to the community and young people through various channels, including social media, with a view to stimulating public discussion of the issue in a rational and pragmatic manner; and

(4) On whether the "regardless of rich or poor" principle or the "those with financial needs" principle should be adopted to strengthen retirement protection, the consultation document provides simulated options to help make meaningful comparisons in terms of financial commitments and the impact on public finances. I hope that members of the public will find the detailed data useful when they discuss this controversial issue.

Another contentious issue which needs to be addressed is the "offsetting" arrangement of the MPF. The Chief Executive stated in his Election Manifesto that we should "adopt measures to progressively reduce the proportion of accrued benefits attributed to employer's contribution in the MPF account that can be applied by the employer to offset long service or severance payments". After detailed deliberations, the CoP considers that the complexity of the "offsetting" issue should not be underestimated. The CoP agrees that the community should make good use of this consultation to conduct thorough and in-depth discussions about the impact of feasible options to address the "offsetting" issue on employers and employees as well as the role of the Government. We should strive to find an option that is acceptable to both employers and employees so as to protect the interests of low-income people and further strengthen the MPF pillar and retirement protection system as a whole.

Given their diverse backgrounds, it is understandable that CoP members have a particular stance on the above two highly controversial issues. The fact that the drafting of this consultation document could be completed in a timely manner owed much to the inclusiveness and commitment to Hong Kong of CoP members who tried to narrow differences and maximise common ground. I am greatly indebted to them in this respect. I would also like to extend my gratitude to the team led by Professor Nelson Chow for completing the research report on the future development of retirement protection, which has provided a useful basis for the preparation of this consultation document.

Lastly, I appeal to all members of the community to express your views through various channels over the next six months. Your input will help the Government and the CoP better address the issue of retirement protection.

Mrs Carrie Lam
Chairperson of the Commission on Poverty

Chapter 1
Scope and Purpose of the Consultation

Background

1.1 Some 20 years later, Hong Kong will become a "silver hair city". By then, almost one in every three Hong Kong people will reach the age of 65 or above. To all of us as individuals, growing old is a natural part of life. We have the responsibility to make early preparation for ourselves and for our family members before coming to the twilight years. Meanwhile, Hong Kong is entering into an era of rapid population ageing. It is expected that some 20 years from now, the elderly population will account for more than 30% of our total population. Support for the elderly is an important public policy issue that the whole community has to face and tackle through shared responsibility. By doing so, we will make Hong Kong a better home for the elderly.

1.2 Retirement protection is essential to providing security for the elderly people. Hong Kong's retirement protection system is still evolving. Major developments in the past include the introduction of the Mandatory Provident Fund (MPF) System 15 years ago, and the launch of the Old Age Living Allowance (OALA) shortly after this Government started its term. There are constant calls for improving the retirement protection system, but views are divergent as to what improvements are needed and how the financial commitments arising from the improvement measures can be met. Some consider that the existing means-tested schemes should be enhanced to help the elderly in need ("those with financial needs" principle). Others suggest that a non-means-tested and uniform payment should be provided for all elderly people ("regardless of rich or poor" principle).

1.3 Retirement protection and elderly poverty are inextricably linked. The Chief Executive stated in his Election Manifesto that the Government would "study how to introduce short, medium and long-term measures to solve the problem of elderly poverty and improve the present social security and retirement protection systems". The current-term Government has launched the OALA and enhanced a number of elderly services relating to welfare, healthcare and transport. Nevertheless, further improvement to the retirement protection system is still necessary to better prepare the Hong Kong community for the challenge of population ageing.

1.4 In May 2013, the Commission on Poverty (CoP) chaired by the Chief Secretary for Administration commissioned the team led by Professor Nelson Chow to study the future development of retirement protection. In August 2014, the research report (the Report) was released for public discussion. In January this year, the Chief Executive stated in the Policy Address that the CoP would launch a public consultation on retirement protection in the latter half of 2015, and $50 billion would be set aside to demonstrate the Government's determination in and commitment to improving the protection for needy residents after retirement. The terms of reference and membership list of the CoP are at Annex 1.

Scope and purpose of the consultation

1.5 This consultation is conducted in the name of the CoP. The CoP considers that the scope of consultation should not be limited to the pillar which covers the social security programmes provided by the Government (i.e. the zero pillar). As retirement protection covers different aspects, it would be difficult to address elderly poverty and other retirement protection problems through one single pillar. In fact, focusing discussion on social security pillar alone is not comprehensive and fails to take account of the complementary elements of different pillars. If other pillars (e.g. the MPF and voluntary savings) can assume stronger retirement protection functions, this can, in the long run, help reduce the retirees' reliance on the social security pillar, thus effectively alleviating the pressure imposed by an ageing population on public finances and maintaining the sustainability of the whole system. This is in line with the concept of the multi-pillar model advocated by the World Bank.

1.6 The CoP acknowledges that some elderly people are not adequately cared for under the existing retirement protection system. How better protection can be provided for these elderly people - whether to adopt the "regardless of rich or poor" or the "those with financial needs" principle - is the core issue to be dealt with in this consultation. Apart from income protection, the discussion should also cover protection in other aspects. To many elderly people, having access to appropriate medical or long-term care services when they are frail or ill is their prime concern.

How to approach the issue

1.7 The CoP considers that the community can approach the issue of retirement protection from different perspectives, including **concepts and principles**. Hong Kong has developed a retirement protection system which embodies the values long cherished by society, including self-reliance, family support and targeted assistance to help the elderly in need. Should preserving and consolidating such principles be a major consideration in the future development of the system? If providing better protection for the elderly in need is the goal of the reform, whether the "regardless of rich or poor" principle or "those with financial needs" principle can better realise the concept of poverty alleviation? Which principle can better achieve the objectives, namely adequacy, sustainability, affordability and robustness advocated by the World Bank? These are the questions that we cannot evade.

1.8 The CoP considers that the sustainability of both the "regardless of rich or poor" principle and "those with financial needs" principle will be affected directly by the future **demographic changes** and the **affordability of the community**. As such, the community needs to explore thoroughly how these two factors will impact on the feasibility of the proposed options before making its decision.

1.9 Elderly people are not a homogeneous group. At present, we have more than one million elderly people and their individual financial needs vary. The situation will remain the same in the future. As education attainment level improves, **elderly people in future generations** should be financially better off. In addition, as the retirement protection pillars such as the MPF and voluntary savings mature, it is expected that the number of elderly people with no employment income but holding certain assets will be on the rise. Is the proposal providing cash assistance to these elderly people as much as for those with financial needs under the "regardless of rich or poor" principle in line with the principle of optimising the use of limited resources? Or should the community consider assisting these elderly people in converting their assets into a regular stream of income so that they may have more resources at their disposal after retirement?

1.10 The CoP cannot reach a consensus on whether the "regardless of rich or poor" or "those with financial needs" principle should be adopted as the basic direction for improving the existing system. However, the CoP agrees that the different views of members should be set out in this consultation document to help the public better understand the pros and cons of the two policy approaches. The "offsetting" arrangement under MPF is another contentious issue. Although members have different views, the CoP agrees that we should conduct thorough and in-depth discussion through this consultation. As for other issues raised in this consultation document, members generally share similar views. The CoP would like to point out in particular that those members who support the "regardless of rich or poor" principle also recognise the need to improve and strengthen the retirement protection function of the existing pillars.

Contents of the consultation document

1.11 When drafting this consultation document, the CoP made reference to the analyses and proposals in the Report, views expressed in the community after the release of the Report, and the discussion among members of the CoP in the past. The CoP also reviewed the existing retirement protection system in Hong Kong and studied the experience of the World Bank and other overseas jurisdictions. Based on the latest population and labour force projection data, the CoP updated and projected the possible impact of different options on our public finances, and estimated the additional burden to be borne by employers and employees for the next 50 years.

1.12 By citing the latest population and labour force projections, Chapter 2 of this consultation document gives an account of the challenges posed by an ageing population and shrinking workforce to the sustainability of public finances and our retirement protection system. The chapter also discusses issues of the responsibility of providing retirement protection and elderly poverty.

1.13 Chapter 3 discusses the multi-pillar model advocated by the World Bank and Hong Kong's multi-pillar system. It also attempts to identify the elderly and other groups of people in need of our further attention. Besides, it covers the general trends of retirement protection reforms in overseas jurisdictions.

1.14 Chapter 4 examines the current situation of the zero pillar (social security) and the fourth pillar (public services, family support and personal assets) in Hong Kong, while Chapter 5 accounts for the second pillar (mainly the MPF System) and the third pillar (voluntary savings). These two chapters also summarise the improvement proposals put forth by the CoP in respect of each pillar.

1.15 Chapter 6 makes use of two simulated options, one under the "regardless of rich or poor" principle and one under the "those with financial needs" principle, for comparison and analysis. The simulated "regardless of rich or poor" option is drawn up basing on the payment level and disbursement criteria of the "Demo-grant" recommended by the Report, while the analysis of the "those with financial needs" principle is based on a simulated option of enhancing OALA. This chapter also covers a simple analytical framework, facilitating the comparison of the increased expenditure of the two simulated options, their respective implication on public finances, additional commitments to be borne by employers and employees, and the cost-effectiveness in poverty alleviation, etc. Besides, this chapter sets out the Government's position.

1.16 Chapter 7 aims to invite response and feedback by raising specific questions to aid discussion.

1.17 There are six annexes to the consultation document. Annex 1 sets out the terms of reference and membership of the CoP. Annex 2 briefly accounts for the reform trends of overseas retirement protection systems. Annex 3 sets out the background information relating to severance payment, long service payment and "offsetting" arrangement.

1.18 Annexes 4 and 5 are technical documents. Based on the latest population and labour force projections, Annex 4 gives an account of the technical details and results of the projected financial commitments for the simulated "regardless of rich or poor" and "those with financial needs" options in the coming 50 years. Adopting the latest population and labour force projections, the projection framework used in the Report and the financing arrangements proposed by the respective options, Annex 5 sets out the updated financial assessments for options proposed by stakeholders in the Report (comprising three "regardless of rich or poor" proposals and two "those with financial needs" proposals), as well as the "Demo-grant" proposal.

1.19 Annex 6 provides details of the public annuity scheme. This is one of the stakeholders' proposals which has been mentioned but not dealt with in the Report.

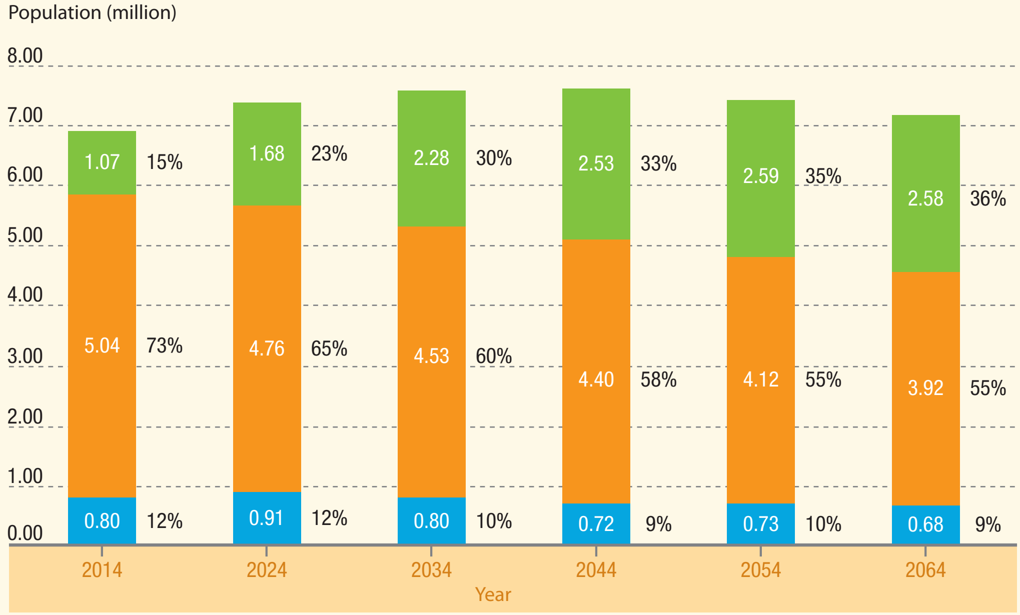
Chapter 2
Challenges of Ageing Population

Rapidly ageing population

2.1 Hong Kong people are living longer. Among the elderly people now aged 65, 60% are expected to live to the age of 85 or above and 40% to over 90. Fertility rate is another factor that affects Hong Kong's demographic structure. Our total fertility rate declined from 1.9 births per woman in 1981 to a historical low of 0.9 in 2003, before rebounding to the level of 1.2 to 1.3 in recent years.

2.2 Given the longer life expectancy and low birth rate, and that the "baby-boomers" are approaching retirement age, the elderly population will continue to grow over the coming some 40 years. By around 2040, about one in every three Hong Kong people will be an elderly person. According to the latest population projections[1], the elderly population aged 65 or above will more than double from 1.07 million (or 15.4%) in 2014 to 2.58 million (or 35.9%) in 2064 (see Diagram 2.1). The elderly population aged 75 or above will increase from 0.53 million (or 7.6%) to 1.62 million (or 22.6%) over the same period.

Diagram 2.1 Growing elderly population and declining younger population (excluding foreign domestic helpers (FDHs))



Source: Census and Statistics Department

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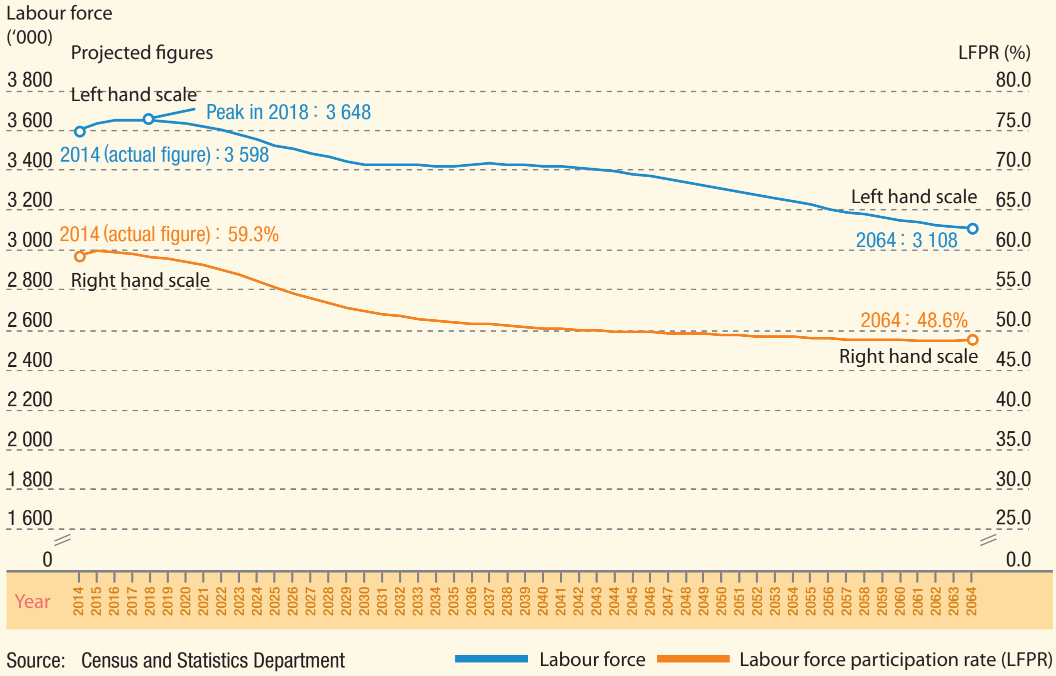
1 Population and labour force projection figures cited in this consultation document are the latest projection results published by the Census and Statistics Department in September 2015. These figures reflect the most likely scenario assuming that current policies and past trends remain unchanged. If there are new policies implemented or changes in the trends, the population and labour force figures will be different. The Census and Statistics Department will closely monitor the latest population and labour market developments, and update the projections as necessary.

Shrinking workforce

2.3 In contrast to the rapidly growing in the elderly population, the number of younger people (aged 15 to 64) is anticipated to drop significantly from 5.04 million (or 73.0%) in 2014 to 3.92 million (or 54.6%) in 2064. Younger people are the mainstay of the labour force. Along with the drastic reduction of people in this age group, the labour force, after a slight increase from 3.6 million in 2014 to a peak of 3.65 million in 2018, will decrease continuously and down to 3.11 million in 2064. The labour force participation rate (LFPR), excluding FDHs, will decrease from 59.3% in 2014 to 48.6% in 2064 (see Diagram 2.2). It is noteworthy that LFPR of the elderly population will rise from 8.7% in 2014 to 9.4% in 2064.

Diagram 2.2 Labour force starts to shrink after reaching the peak in 2018 (excluding FDHs)



Source: Census and Statistics Department

Worsening dependency ratio

2.4. The dependency ratio will worsen quickly. The number of children and elderly people to be supported per 1 000 people of working age (i.e. aged 15 to 64) will increase from 371 in 2014 to 831 in 2064 (see Diagram 2.3). With declining younger population and growing elderly population, as well as longer life expectancy of the elderly, a retirement protection system which relies heavily on future generations to support the elderly is difficult to maintain its financial sustainability.

Impact on public finances

Economic growth set to slow and affecting tax revenue

2.5 With a continuously shrinking labour force, our long-term economic growth potential will inevitably come under pressure even if our labour force productivity continues to rise. As the latest labour force projection outcome is lower than the previous projection, coupled with the intensified ageing trend, our long-term economic trend growth is expected to decelerate gradually (see Diagram 2.4). The average economic growth in real terms over the 27 years from 2015 to 2041 is assumed to be 2.7% per annum, slightly lower than the 2.8% assumed in the 2014 Report of the Working Group on Long-Term Fiscal Planning. The deceleration in economic growth will become more noticeable after 2041, with the average economic growth rate in real terms over the 23 years from 2042 to 2064 further down to 1.6%[2]. Such a trend will adversely affect the Government's tax revenue and other incomes, adding pressure to public finance and increasing the risk of fiscal deficits.

Diagram 2.3 Worsening dependency ratio (excluding FDHs)

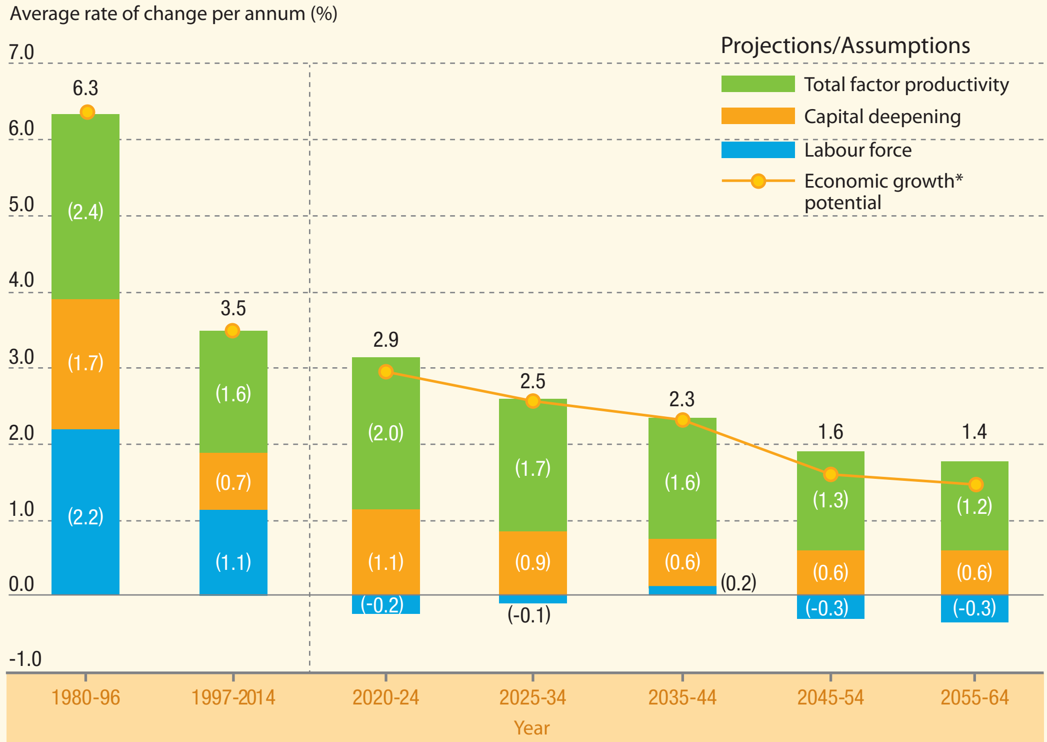
	Child dependency ratio	Elderly dependency ratio	Overall dependency ratio
2014	159	211	371
2024	192	353	546
2034	176	505	680
2044	163	574	738
2054	177	629	806
2064	173	658	831

= 100 children   = 100 elderly people

Notes: Child dependency ratio refers to the number of persons aged under 15 per 1 000 persons aged 15 to 64.
Elderly dependency ratio refers to the number of persons aged 65 or over per 1 000 persons aged 15 to 64.
Child dependency ratio and elderly dependency ratio may not add up to overall dependency ratio due to rounding.

Source: Census and Statistics Department

Diagram 2.4 Economic growth will be dragged by insufficient labour force



Notes: ( ) Rates of contribution of the various factors of production towards the economic growth potential.
(*) Economic growth potential refers to the potential output growth assuming full employment and the utilisation rates of other factors of production at normal levels. As such, the growth rates from 1980 to 1996 and from 1997 to 2014 shown in the diagram are slightly different from the actual GDP growth in the same periods.
Figures may not add up due to rounding.

Source: Economic Analysis and Business Facilitation Unit

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2 The nominal economic growth rate will also be adjusted downwards correspondingly. The average nominal economic growth rate over the 27 years from 2015 to 2041 is assumed to be 4.3% per annum, slightly lower than the 4.4% assumed in the Report of the Working Group on Long-Term Fiscal Planning. Meanwhile, the average nominal economic growth rate over the 23 years from 2042 to 2064 would drop further to 3.1% per annum.

2.6 The above projections of long-term economic growth are based on the prevailing trends and conditions. Our economic development is at present constrained by two major factors: manpower and land. If the issues of manpower and land resources could be addressed properly, we would not rule out the chance for our economy to grow faster in the future.

Rising public expenditure

2.7 An ageing population will lead to a much higher demand for healthcare and social welfare. This comes not only as an inevitable result of a rapidly growing elderly population, but also as a result of a longer lifespan which will lengthen the period of time for which support or services are needed. Furthermore, except for public housing and some social security programmes for the elderly, the majority of support or services for the elderly are non-means-tested, including the Old Age Allowance (OAA), healthcare, residential and community care services, the public transport fare concession scheme and the Elderly Health Care Voucher Scheme.

2.8 In 2014-15, the government recurrent expenditure on the elderly (excluding public housing) was about $55.3 billion, accounting for about 20% of the total government recurrent expenditure. In other words, in every $5 of recurrent expenditure, about $1 was spent on supporting the elderly. Such expenditure mainly included:

(a) $24.1 billion on elderly social security programmes (an increase of 70% over 2010-11)[3];

(b) $23.9 billion on elderly healthcare services (an increase of 39% over 2010-11);

(c) $6.2 billion on residential and community care services for the elderly (an increase of 57% over 2010-11); and

(d) $1.1 billion on the Elderly Health Care Voucher Scheme and the public transport fare concession scheme (an increase of 846%[4] over 2010-11).

2.9 If solely adjusted by the growth of the elderly population, discounting the factor of inflation and assuming that there is no service improvement, the estimated expenditure related to the elderly people in 2064 will be two to four times the current expenditure (see Diagram 2.5).

3 The one-off relief measures announced in Budget have not been included.

4 As the public transport fare concession scheme was not launched until June 2012, the percentage here only reflects the increase in expenditure of the Elderly Health Care Voucher Scheme over the period from 2010-11 to 2014-15.

Diagram 2.5 Elderly expenditure will be two to four times the current expenditure after several decades

($ billion; at 2015 price)	2014-15	2064-65
Social security benefits for the elderly (including Comprehensive Social Security Assistance (CSSA), OALA, OAA, Disability Allowance (DA) and allowance under the Guangdong Scheme)	24.1	doubled
Public healthcare services for the elderly	23.9	tripled
Residential and community care services for the elderly	6.2	tripled
Public transport fare concession scheme for the elderly	0.4*	quadrupled
Elderly Health Care Voucher Scheme	0.7	quadrupled

Note: (*) This expenditure includes only the reimbursement of revenue forgone to the public transport operators concerned in implementing the scheme for elderly aged 65 or above (regardless of whether they are disabled and excluding severely disabled persons aged below 65).

Source: Relevant policy bureaux

Tougher times ahead for public finances

2.10 According to a fiscal sustainability assessment on public finances in the report of the Working Group on Long-Term Fiscal Planning appointed by the Financial Secretary released in March 2014, our ageing population will lead to a surge in public expenditure, even if we assume that there is no inflation and no service enhancement (in other words, not having taken the additional resources required for improving retirement protection into account). If government expenditure keeps growing faster than government revenue and economic growth for a long period, the Government may start facing a structural deficit problem around 2029-30 (i.e. within 14 years from now). Unless the expenditure on other public services and policy areas is reduced, it is highly likely that the Government will have to raise taxes or introduce new taxes to tackle the deficit problem. The implementation of any retirement protection proposal that involves additional public resources will surely bring additional pressure on public finances. In this regard, one of the key considerations for retirement protection is to avoid creating unbearable financial burden for the community, and to optimise the use of limited resources to help the elderly in need in a targeted and effective way.

Retirement Protection: Whose responsiblity?

2.11 An ageing population will increase the pressure on public finances. How to ensure the sustainability of a retirement protection system; how to share the responsibility of supporting the elderly among individuals, families and the community in a fair and effective manner; and how to balance the interests across different generations are the issues that the community should examine collectively.

2.12 The Report pointed out that there were divergent views over the issue of "who is responsible" for retirement protection. Some considered that the responsibility should be on individuals and their families and that the community should only provide assistance for those elderly people who were in financial needs. Others held the view that the Government had the capacity and means to provide basic livelihood protection for all elderly people[5].

2.13 In 2012, the Census and Statistics Department conducted a Thematic Household Survey on "Retirement Planning and the Financial Situation in Old Age". The Survey provided further objective data that shed light on people's views as to "who is responsible", and on the support that elderly retirees were receiving from their families, and people's preparation for their retirement. The major findings are as follows (see Diagram 2.6):

(a) Nearly 80% of the respondents opined that they themselves (49.9%), their children/grandchildren (19.0%) and their spouse (10.2%) should be most responsible for providing their financial protection after retirement/in old age. Only less than a tenth (9.5%) of respondents considered that the Government should be the most responsible party. This shows a general consensus in the community that one should be responsible for his/her own retirement protection, and indicates that the sense of self-reliance and mutual support among family members remain strong.

(b) Around 70% of the current generation (at the time of survey) of retired persons indicated that their family members provided financial support for them. The median average amount of monthly financial support provided by family members was $4,000 (at 2012 price). This indicates that family support remains a source of income for many elderly people.

(c) Comparing the current and future generations (at the time of survey) of retired persons, 79.2% of the latter had retirement protection from work, much higher than the 33.6% for the former. Among the future generation, 50.9% had savings and investment, and 17.1% had purchased insurance to cover possible medical and healthcare expenses for various chronic illness in old age. The corresponding percentages for the current generation were only 39.1% and 5.5% respectively. These statistics suggested that as the retirement protection system matured and with a change in mindset, the future generation would be better prepared for retirement than the current generation, though there is still scope for improvement.

2.14 Over the past 30 years, the life expectancy of men and women aged 65 has increased by about 5 years and 6 years respectively. Elderly people aged 65 in 2014 are expected to live to the age of 85 (for men) or 89 (for women) on average. In other words, their retirement life can be as long as 20 or 30 years. Not having planning to get financially prepared for retirement life at a younger age will indeed lead to financial risk due to longevity. How much retirement income will be adequate? Can one's MPF contributions and personal savings last him/her through his/her life? When withdrawing one's MPF benefits, how should the lump sum payment be deployed to ensure a steady stream of income for the days to come? How should one improve his/her retirement life by self-owned property? A worry-free retirement life hinges on one's planning, support from family and protection provided by the system.

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5 Excerpts from Page 6 of the Report's Executive Summary of the Report: "Some considered that old age living protection should be the responsibility of individuals and their family and not be laid on others nor should it be wholly financed by the government. Overseas experience was frequently cited to show that universal retirement protection was not viable. In contrast, some views considered retirement protection as a civil right and all senior citizens, rich or poor, should enjoy a fully dignified life".

Excepts from Page 6 of the Executive Summary of the Report: "Some thought that in view of limited financial resources, the government should only provide for the financially needy elderlies and not for all senior citizens. On the contrary, some thought with the level of Hong Kong's economic development and the huge financial reserve, the government definitely had the capacity and means to provide for basic livelihood protection for all senior citizens".

Diagram 2.6 Relevant findings of the Thematic Household Survey on Retirement Planning and the Financial Situation in Old Age

	Current generation (at time of survey) of retired persons	Future generation (at time of survey) of retired persons	Total
The person perceived as the most responsible for providing one's financial protection after retirement/in old age:			
Oneself	39.2%	54.0%	49.9%
Children/grandchildren (irrespective of living together or not and including their spouses)	33.8%	13.3%	19.0%
Spouse	4.9%	12.3%	10.2%
Government	13.4%	8.0%	9.5%
Employer	3.0%	6.4%	5.5%
Other relatives/friends	2.4%	2.2%	2.3%
Charitable organisations/donors	0.4%	1.2%	0.9%
Did not know/No comments	3.0%	2.6%	2.7%
Preparations made for meeting financial needs after retirement/in old age (multiple selections from the options below were allowed)	53.4%	59.2%	57.6%
Savings and investment	39.1%	50.9%	47.6%
Raising children and expecting, in return, financial support from children in old age	27.1%	16.3%	19.3%
Purchase of insurance to cover possible medical and healthcare expenses for chronic illness in old age	5.5%	17.1%	13.8%
Retirement protection schemes provided by previous/current job	33.6%	79.2%	66.3%
Percentage of retired persons whose family members were providing financial support	69.7%	Not applicable	Not applicable
Median average amount of monthly financial support currently provided by family members (excluding those persons who did not know/forgot the amount and those who refused to answer)	$4,000	Not applicable	Not applicable

Source: Census and Statistics Department

Elderly poverty situation

2.15 Whilst more and more elderly people are making better preparation for their retirement life, some are still not adequately protected under the existing system. There should be no disagreement in the community that the support for the elderly in need should be strengthened. The question is how to identify those who need further support.

2.16 Public discussion tends to focus on the elderly people below the poverty line. In 2014, about 290 000 elderly people were still living below the poverty line after recurrent cash intervention[6]. They accounted for 30% of the total elderly population. There is no doubt that as much as 290 000 elderly people living in poverty should not be dismissed lightly. However, we must not overlook the

6 Distribution of the some 290 000 elderly persons by the type of social security benefits received is as follows:

Social Security Benefit	Number of recipients (percentage)
CSSA	48 000* (16%)
OALA	118 400 (40%)
OAA	67 000 (23%)
DA	7 600 (3%)
Not receiving any social security	52 800 (18%)
Total	293 800 (100%)

* Not all the elderly residing in CSSA households are receiving CSSA. Hence this figure is slightly different from that in paragraph 2.17 and diagram 2.7.

limitations of the poverty line which only takes income into account. Some elderly people who are "asset-rich, income-poor" may be classified as poor in statistical terms, thus inflating the elderly poverty rate.

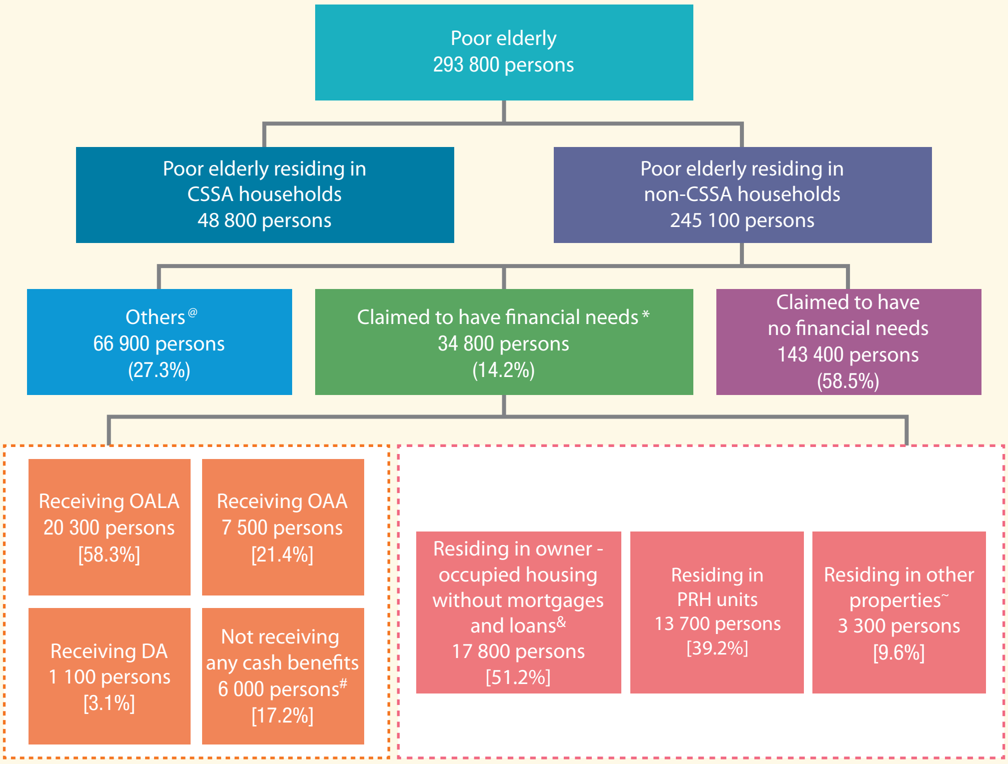
2.17 Among the 290 000 or so poor elderly people, 17% were living in CSSA households, and their "recognised needs" were covered by the CSSA Scheme. Of the remaining 83% or 245 000 poor elderly people who were not living in CSSA households, about 140 000 claimed that they did not have financial needs[7]. This indicates that not all elderly people living below the poverty line need support. They may be those "asset-rich, income-poor" elderly people.

2.18 As to the remaining 100 000 or so non-CSSA poor elderly people, only about 35 000 claimed that they had financial needs or were applying for CSSA. Among them, about 50% were living in self-owned properties with no mortgage, while another 40% were public rental housing (PRH) tenants. Their housing needs have largely been met. At the same time, among these 35 000 elderly people, 58% were receiving OALA, around 24% were receiving non-means-tested DA or OAA, and 17% were not receiving any social security benefits at all (see Diagram 2.7). From the above analysis, we can see that the number of elderly people who need further financial support should be much smaller than the number of elderly people living below the poverty line. In order to effectively tackle the issue of elderly poverty, the CoP is of the view that we should not simply look at the number of elderly people living below the poverty line but should focus on those poor elderly who had financial needs, including the 20 000 or more elderly OALA recipients who indicated that they still had financial needs. Moreover, since the poverty line is not a "poverty alleviation line", elderly people living above the poverty line who are clearly facing poverty risk also deserve our attention when further policy intervention is considered.

2.19 Another data showing an improvement of the elderly poverty situation is the percentage of elderly people receiving various social security benefits under the zero pillar. The percentage has continued to decline over the past ten years or so, from 83% in 2002 to 79% in 2006, further to 76% in 2011, and standing at 73% currently. In particular, the percentage of elderly people receiving CSSA gradually decreased from 19% in 2004 to 13% in mid-2015. This should allay the concern of some people who have commented that an ageing population would lead to a sharp increase in the number of elderly CSSA cases. Nevertheless, as Hong Kong people are living longer, when elderly people have exhausted all their MPF benefits or personal savings, they may need to apply for CSSA or OALA to support themselves financially. The increase in life expectancy is still a potential factor affecting the expenditure on social security.

7 The data has been collected by the Census and Statistics Department's General Household Surveys since 2010. When the monthly income of an interviewed household fell below a certain level, they would be asked "Why don't you apply for CSSA?" and would be given multiple answers to choose from. Some households chose to indicate that they did not have financial needs. Some said that they had financial needs but were ineligible or were applying for CSSA. There were also some households who refused to answer. Over the past five years, about 60% of non-CSSA households consistently claimed that they did not have financial needs.

Diagram 2.7 Distribution of the some 290 000 poor elderly in 2014



Notes: These are poverty statistics after recurrent cash intervention.
( ) The proportion in the total number of poor elderly residing in non-CSSA households.
[ ] The proportion in the total number of poor elderly residing in non-CSSA households who claimed to have financial needs.
(*) Including those who claimed to have financial needs and are applying for the CSSA.
(#) 700 (11.9%) of them are elderly people aged 70 or above.
(@) Including those who refused to reply.
(&) Including subsidised sale flats and owner-occupied private housing, both without mortgages and loans.
(~) Including subsidised sale flats (with mortgages or loans), temporary housing and private housing (including tenants and those owner-occupiers with mortgages and loans.)

Source: Census and Statistics Department

A shared responsibility

2.20 The future demographic structure will pose a huge challenge to the sustainability of the retirement protection system. To keep the system sustainable, the responsibility to provide for elderly people should not be borne by any single party. Instead, it should be shared among individuals, families and the community in an equitable manner so as to avoid increasing the burden on the next generation. At the same time, the traditional values long cherished by society such as self-reliance and mutual support among family members should be upheld. In fact, according to the survey mentioned in paragraph 2.13 above, the public generally agreed that they themselves and their family should be responsible for preparing for their retirement, and that the current generation has better preparation for their financial needs after retirement. Furthermore, a large number of retirees were receiving financial support from their families. In considering how the retirement protection system can be improved, the community must have full regard to these factors.

2.21 Organisations in support of universal retirement protection and some members of the CoP, while not objecting to the principle of shared responsibility, still insist that retirement protection adopting the "regardless of rich or poor" approach is the civil right of all senior residents. They believe that given the level of economic development of Hong Kong and its abundant fiscal reserves, the Government definitely has the capacity and means to provide across-the-board basic livelihood protection for all elderly people.

Chapter 3
Multi-pillar System and Underlying Principles

World Bank's Multi-pillar model

3.1 In face of the challenges brought by an ageing population, many places around the world have made dedicated efforts to reform their retirement protection systems to enhance sustainability. To help these places conduct systematic analyses and comparisons, the World Bank proposed a three-pillar retirement protection framework in 1994 and refined it in 2005 by proposing a more detailed classification of five pillars (see Diagram 3.1):

Diagram 3.1 World Bank's multi-pillar model

Source: World Bank

3.2 According to the World Bank, the core objectives of pension systems are to protect people against the risk of poverty in old age and to maintain a corresponding pre-retirement living standard through savings. The World Bank considers that accumulating enough reserves for retirement is a complex issue. Therefore, we have to adopt a multi-pronged approach and establish multiple sources of savings or income for retirement. As each pillar has its own purposes, target groups and financial sources, a multi-pillar model can better serve the needs of different elderly groups and enable the pension systems to cope with economic, population and political risks.

3.3 Although the World Bank advocates the multi-pillar model, it does not indicate that a comprehensive retirement protection system should comprise all five pillars. On the contrary, the World Bank stresses that there is no single system that is suitable for all places. Each place should find its way forward in the light of its inherited retirement protection system, the need for reform and whether the conditions are favourable for reform.

Retirement protection currently in Hong Kong

3.4 Based on the multi-pillar model advocated by the World Bank, the retirement protection system in Hong Kong is made up of a number of schemes. It comprises four pillars that are complementary to one another in serving the needs of different groups of elderly (see Diagram 3.2):

The zero pillar publicly-funded social security schemes;

The second pillar mandatory contributions to the MPF schemes, as well as other occupation-based retirement schemes;

The third pillar voluntary contributions to the MPF schemes, retirement savings-related insurance, etc; and

The fourth pillar public housing, healthcare and welfare services, family support and personal assets (e.g. self-owned properties).

As Hong Kong does not have any publicly-managed mandatory contributory plans, there are no arrangements under the first pillar.

Diagram 3.2 Multi-pillar system in Hong Kong

	Zero pillar	First pillar	Second pillar	Third pillar	Fourth pillar
Five pillars of the World Bank	Publicly-funded pension or social security schemes (non-means-tested or means-tested)	Publicly-managed mandatory contributory plans (largely financed on a pay-as-you-go (PAYG) basis)	Privately-managed mandatory occupational or private contributory pension plans	Voluntary contributions or savings to occupational or private pension plans	Public services, family support and personal assets
Retirement protection system in Hong Kong	CSSA*; OALA; OAA; Guangdong Scheme; DA	Nil	Mandatory contributions to MPF schemes; occupational retirement schemes; civil service pensions; Grant/Subsidised Schools Provident Funds	Voluntary contributions to MPF schemes; retirement savings-related insurance	Public housing; public healthcare; residential and community care services; elderly health care vouchers; public transport fare concessions; family support; self-owned properties

Note: (*) Including the Portable CSSA Scheme.
Source: World Bank and relevant policy bureaux

Enhancing existing system – our intended objectives

3.5 The retirement protection system in Hong Kong advocates that those who have the ability to work should be self-reliant, and the Government's role is to provide assistance for the elderly who cannot financially support themselves. In other words, the working population save and plan for their and their families' retirement life through mandatory contributions to MPF schemes, voluntary savings, retirement investments, etc (i.e. the second, third and fourth pillars). The Government, on the other hand, makes use of tax receipts to redistribute wealth through providing a social safety net or a supplement for the needy elderly through social security schemes (i.e. the zero pillar), and heavily subsidising services like public housing, healthcare and residential and community care etc. to meet the daily needs of the elderly (i.e. the fourth pillar). This arrangement can better ensure the long-term sustainability of the system in the light of the ageing population and the need to maintain a simple tax regime with low tax rates.

3.6 The CoP considers that Hong Kong should continue to adopt the multi-pillar model in providing diversified sources to deliver retirement savings and income, to be complemented by a range of public services. To realise the established philosophy behind our social welfare and public finance management policies, the CoP is of the view that the following inherited values and principles treasured by our community should be preserved in the retirement protection system of Hong Kong:

(a) Realising self-reliance through continuous employment and savings;

(b) Encouraging mutual support among family members; and

(c) Providing a social safety net for elderly people in need

3.7 Our target is to establish a comprehensive, adequate, sustainable, affordable and robust retirement protection system, enabling in particular those elderly people who are unable to take care of themselves to maintain a reasonable standard of living. "Comprehensive" means that apart from income protection, support services in areas such as housing, healthcare and welfare should also be provided under the system. "Adequate" refers to the adequacy of income protection in supporting the elderly people in their twilight years. "Sustainable" means the financial sustainability of the system. "Affordable" means whether the additional expenditure will go beyond the affordability of the Government, employers and employees. "Robust" means the ability of the system to withstand economic fluctuations without the need for drastic reduction in pension benefits in face of economic instability. These five objectives can co-exist but interact with one another. For example, too much emphasis on adequacy will make the system difficult to sustain, while pursuing sustainability only may result in inadequate protection for the elderly. The CoP considers that the challenge before us is to identify the right balance among these objectives that best suits Hong Kong's practical circumstances.

Groups requiring our attention

3.8 Assuming that there is an employee who earns $15,000 per month (same as the median income of employed persons in 2014) starting to make contributions to the MPF at the age of 25. During his/her working life, there is no real wage growth, and the accumulated MPF benefits have not been subject to the "offsetting" arrangement[1]. This employee can accumulate a sum of MPF accrued benefits that can be converted into a monthly income of some $3,000 - $4,000 (at 2015 price)[2] when retiring at 65. Together with the non-means-tested OAA of $1,235 per month, the monthly income should be able to meet his/her daily living expenses (excluding housing and healthcare expenses). While it is difficult to have an objective standard for "adequate", we may consider that the level of $3,000 or so is largely "adequate" as the payments proposed by various "regardless of rich or poor" proposals covered in the Report are around this level.

3.9 For working age people engaged in lower-income jobs, those whose MPF benefits have been used for "offsetting", home-makers or those without a permanent job, the amount of MPF benefits they can accumulate is limited. If the protection offered by the other pillars is inadequate, such people may resort to the means-tested CSSA or OALA.

3.10 After examining the elderly poverty situation and the profile of elderly people that can be covered by each pillar under the existing retirement protection system, the CoP considers that the following groups deserve our attention:

(a) The elderly people who are still living below the poverty line and have financial needs after policy intervention. Based on the 2014 poverty statistics, this included 35 000 non-CSSA elderly people who were below the poverty line and claimed to have financial needs. Among them, 20 000 or so were receiving the OALA.

(b) Some features of the MPF such as its current contribution rates and the maximum and minimum levels of income for MPF contributions have made it difficult for this pillar to meet all retirement needs. Besides, as the system has been implemented for only 15 years, low-income earners can only accumulate relatively less savings upon retirement. This is especially the case for those employees who need not make contributions due to their low income and those who are affected by the "offsetting" arrangement. In 2014, 43 500 employees were affected by the "offsetting" arrangement, representing 1.7% of the employees who have enrolled in MPF schemes.

(c) The non-working population, for instance there are about 650 000 home-makers in Hong Kong currently. Most of them are housewives who can only rely on private savings, family support or financial assistance provided by social security to support their living in their old age.

(d) There are elderly people who are not rich but have some assets (such as self-owned properties). As they don't know how long they will live and are worried about outliving their own savings, they will reduce their daily expenses as much as possible ending up in a frugal life in their old age. At present, there are about 250 000 elderly people residing in self-owned properties with no mortgage (including private properties and Home Ownership Scheme (HOS) flats).

3.11 The CoP suggests that the community may focus on exploring ways to improve the retirement protection arrangements for the above four groups of people. However, as mentioned in paragraph 3.7, apart from being comprehensive and adequate, a retirement protection system should also be sustainable and affordable. Maintaining the right balance among these objectives is one of the issues being looked into when carrying out reforms on pension schemes in some overseas countries or places.

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1 This example has been cited by the Mandatory Provident Fund Schemes Authority (MPFA). "No real wage growth" means that this wage is only adjusted in line with inflation without increase in real terms. "Offsetting" is an arrangement that allows employers to use funds which include the MPF accrued benefits to offset severance payments or long service payments required under the Employment Ordinance.

2 Other assumptions in this example include the annualised internal rate of return of 1.6% (i.e. the annualised internal rate of return between the MPF inception and October 2015) during a 40-year working life; taking into acount of the rate of inflation in the corresponding period; the MPF benefits withdrawn upon retirement to earn a rate of return on par with inflation; and the MPF accumulated benefits to be divided into installments of same amount over the average expected life expectancies at 65. For details please refer to the example in paragraph 5.8.

Overseas experience

3.12 Annex 2 reviews the trends in some overseas places in reforming their retirement protection systems. There are two main observations —

(a) In the past many places have developed publicly-managed mandatory contributory systems under the first pillar which is financed mainly on a PAYG basis. However, against the backdrop of declining birth rates and longer life expectancies, when the number of retirees has grown faster than that of the working population, the first pillar in these places has experienced financial difficulties. One of the reform directions is to retain this pillar and fix its problems. Measures such as deferring the retirement age, revising the formula for calculating pension entitlements, etc have been implemented to reduce pension expenditure or contain its rate of increase to improve the financial sustainability of the first pillar.

(b) Another reform direction is that more and more places have established the second pillars, mainly being privately-managed mandatory occupational contributory systems operated in the form of individual accounts. As these second pillars are fully funded, the pension schemes have accumulated adequate assets to meet current and future payment obligations. Hence such systems are more financially sustainable. However, same as the MPF in Hong Kong, the second pillars in these places have encountered challenges, including fee levels, inadequate protection, as well as the investment and longevity risk borne by employees. These places, thus, have implemented improvement measures, such as introducing default pension products, to lower fees and better manage investment risks.

Chapter 4
Current State of the Zero and Fourth Pillars

Social security schemes under the zero pillar

4.1 The zero pillar is a multi-tiered social security system. The main function of most of the schemes is to alleviate poverty by serving as a safety net for those elderly people who are unable to have adequate retirement protection under other pillars or by supplementing their living expenses. The existing multi-tiered system covers the CSSA, OALA, OAA, Guangdong Scheme and DA. The schemes are designed with different allowance levels and eligibility criteria (including residence requirement, means tests, etc.) to support different elderly groups. Each elderly person is allowed to receive only one type of allowance.

4.2 At present, the various assistance programmes under the zero pillar have benefited about 73% of elderly people in Hong Kong, comprising the CSSA (13%), OALA (37%), OAA (19%)[1] and DA (3%). The take-up rate of those aged 70 or above is even higher at 87%. All these four assistance programmes are non-contributory and funded by general revenue (see Diagram 4.1).

Elderly Comprehensive Social Security Assistance (Estimated expenditure for 2015-16: $9.4 billion)

4.3 The purpose of the CSSA is to provide a safety net for those who cannot support themselves financially so as to meet their basic needs. The amount of payment is the highest among all social security schemes. Although the CSSA Scheme is not specifically designed for elderly people, nearly 50% of CSSA recipients (or about 170 000) are elderly people aged 60 or above[2], indicating that the CSSA can provide financial protection for needy elderly people in their old age. Higher standard rates, special grants and supplements are provided for elderly CSSA recipients to meet their basic needs and other special needs (such as special diet, medical items, etc.). CSSA recipients are also entitled to free services at public hospitals and clinics.

4.4 Designed to help those who are unable to support themselves, the CSSA Scheme is subject to means-testing. To ensure that limited resources are targeted towards the most needy, the criteria of the means tests should not be lenient. Means tests are conducted on a household basis, which is in keeping with the concept of promoting mutual support among family members. For CSSA applications, the asset limit (excluding owner-occupied properties) for elderly singletons and two-person elderly households is $43,500 and $65,000 respectively. Taking into account all CSSA cases involving elderly recipients, an elderly person may receive a monthly CSSA payment of about $5,100 on average whereas an elderly singleton may receive $5,548. Diagram 4.2 gives four examples to illustrate the monthly CSSA payments received by elderly singletons in different health and housing conditions may range from $3,667 to $10,462.

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1 Excluding elderly beneficiaries of the Guangdong Scheme as most of them are not included in the Hong Kong resident population.

2 Under the CSSA Scheme, elderly people are defined as persons aged 60 or above. They are not required to join the Support for Self-reliance Scheme as other able-bodied CSSA recipients.

Diagram 4.1 Details of various social security schemes for the elderly

<table>
<tr><th rowspan="2">Scheme*</th><th colspan="3">Income/asset limit and amount of monthly payment[#]</th><th rowspan="2">Number of recipients aged 65 or above (percentage of the elderly population aged 65 or above as at end June 2015)</th><th rowspan="2">Actual expenditure for 2014-15 ($ billion)</th></tr>
<tr><th>Income limit ($)</th><th>Asset limit ($)</th><th>Amount of monthly payment ($)</th></tr>
<tr><td>CSSA</td><td>Monthly payment to meet "recognised needs"[@]</td><td>43,500 (single elderly)</td><td>5,548 [^]</td><td>147 428 (13%)</td><td>8.89</td></tr>
<tr><td>OALA</td><td>single persons: 7,340
couples: 11,830</td><td>single persons: 210,000
couples: 318,000</td><td>2,390</td><td>420 227 (37%)</td><td>11.34</td></tr>
<tr><td>OAA</td><td>N.A.</td><td>N.A.</td><td>1,235</td><td>216 205 (19%)</td><td>2.79</td></tr>
<tr><td>Guangdong Scheme **</td><td>single persons: 7,340
couples: 11,830</td><td>single persons: 210,000
couples: 318,000</td><td>1,235</td><td>16 776 (–) [##]</td><td>0.26</td></tr>
<tr><td>Normal DA</td><td rowspan="3">N.A.</td><td rowspan="3">N.A.</td><td>1,580</td><td>19 472 (2%)</td><td>0.33</td></tr>
<tr><td>Higher DA</td><td>3,160</td><td>14 079 (1%)</td><td>0.49</td></tr>
<tr><td>Elderly people who are not receiving social security benefits</td><td>N.A.</td><td>305 889 (27%)</td><td>—</td></tr>
<tr><td colspan="4">Total elderly population (as at end June 2015)</td><td>1 123 300 (100%)[~]</td><td>Total amount: 24.10[&]</td></tr>
</table>

Notes:

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

(#) These are the current means test limits and payment levels effective since 1 February 2015. These limits and levels would be adjusted with effect from 1 February each year according to the established mechanism.

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

(^) The average monthly CSSA payment for the elderly singletons aged 60 or above (excluding recipients of the Portable CSSA Scheme) is estimated to be $5,548.

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

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

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

(&) If the one-off relief measures are included, the total amount of expenditure should be around $25.85 billion (CSSA: $9.39 billion; OALA: $12.29 billion; OAA: $3.01 billion; Guangdong Scheme: $0.28 billion; Normal DA: $0.36 billion; Higher DA: $0.53 billion). Numbers may not add up to the total due to rounding.

Source: Social Welfare Department

Diagram 4.2 Examples of monthly CSSA payments for elderly singletons aged 60 or above

	Example (1)	Example (2)	Example (3)	Example (4) (residing in non-subsidised residential care places)
(1) Standard rates	$3,200 (able-bodied elderly)	$3,200 (able-bodied elderly)	$3,870 (100% disabled elderly)	$5,450 (elderly requiring constant attendance)
(2) Community living supplement/ residential care supplement	$300	$300	$300	$300
(3) Long-term supplement	$167 ($2,000/12 months)	$167 ($2,000/12 months)	$167 ($2,000/12 months)	$167 ($2,000/12 months)
(4) Rent allowance	No rent payable	Rent for PRH: $800	Rent for private housing: $1,640 (maximum rent allowance)	Rent for non-subsidised residential care places: $1,640 (maximum rent allowance)
(5) Special grants*	Not receiving any special grants	• Grant for service charges for emergency alarm system for elderly recipients: $100 • Grant for telephone charges: $128 • Grant to cover costs of dental treatment: $800 ($9,600/12 months) • Grant to cover costs of glasses: $21 ($500/24 months)	• Special diet allowance (lower rate): $530 • Grant for service charges for emergency alarm system for elderly recipients: $100 • Grant for telephone charges: $128 • Grant to cover costs of dental treatment: $800 ($9,600/12 months) • Grant to cover transport fares to and from hospital/clinic: $50	• Special diet allowance (higher rate): $1,005 • Grant to cover costs of medical items: - disposable diapers: $1,400 - nasal-gastric tubes and glucometers: $500
Total#	$3,667	$5,516	$7,585	$10,462

Notes: (*) Most special grants are payable to meet actual expenses on a reimbursement basis. Some are subject to grant ceilings.

(#) The one-off additional standard rate payments granted to CSSA recipients announced in the Budget in recent years are not included.

Source: Social Welfare Department

4.5 Implemented in Guangdong in 1997 and extended to Fujian in 2005, the Portable CSSA Scheme provided cash assistance to 1 830 elderly CSSA recipients who chose to retire in Guangdong or Fujian as at end June 2015[3].

3 The elderly under the Scheme may receive the monthly standard rates and the annual long-term supplement. Depending on the elderly's entitled amount of standard rate, each elderly can on average receive monthly assistance ranging from $3,300 to $5,600 at present. After reaching its peak of about 3 300 elderly people in 2006-07, the number of recipients under the scheme has since been falling to 1 830 elderly people as at end June 2015.

Diagram 4.3 Comparison of average CSSA payments with expenditure of non-CSSA households

Number of eligible members in the household	Average monthly CSSA payment of all CSSA cases* (February 2015) ($)	Average expenditure of non-CSSA households in the lowest 25% expenditure group (December 2014) ($)
1 person	5,399	4,602
2 persons	8,560	7,776
3 persons	11,307	10,658
4 persons	13,401	13,180
5 persons	15,521	15,431
6 persons or above	19,101	17,389

Note: (*) This payment refers to the CSSA payment received by a CSSA household with no other incomes. Generally speaking, the figures can be regarded as the "recognised need s" under the CSSA Scheme.

Source: Social Welfare Department

4.6 Members of the CoP consider that the comprehensive and targeted assistance available under the CSSA is tailor-made to meet the basic needs of individual elderly persons. The role of CSSA as a safety net of last resort cannot be replaced. Nevertheless, the CoP is of the view that there is still room for further improving the CSSA system. Some members suggest that the CSSA payment level should be reviewed. Some see the need for reviewing the arrangement of requiring family members to make a declaration if they are unable to provide for the daily needs of the elderly members concerned. The feasibility of income and assets declaration on an individual basis should be explored, and the impact of the relevant measures on family policies and public finances be assessed. On the other hand, some members note that in all types of households, the average allowance received by CSSA households was higher than the average expenditure of non-CSSA households in the lowest 25% expenditure group in Hong Kong (see Diagram 4.3). Given that CSSA for the elderly people is part of the CSSA system, we should consider whether any contemplated changes will adversely affect the well-established system and prudence must be exercised before deciding whether to introduce such changes.

4.7 The CoP is also concerned that people who want to reduce the financial burden of taking care of their elderly parents would arrange for their parents to be admitted to residential care homes. The elderly parents would then be eligible to apply for CSSA as independent applicants. This would not only push up the institutionalisation rate of the elderly people, but also affect their living standards. There are about 25 000 elderly CSSA recipients residing in non-subsidised places. The Elderly Commission is now exploring the feasibility of introducing a voucher subsidy mode for residential care services for the elderly. The service targets include eligible elderly CSSA recipients who may choose to reside in the residential care homes participating in the voucher scheme after opting out of the CSSA system. One of the initial recommendations is to allow family members to purchase extra or value-added services in addition to the standard package of services covered by service vouchers so the elderly can receive better services. The Government has earmarked about $800 million for providing a total of 3 000 service vouchers in a three-year pilot scheme. Besides, elderly people who do not wish to apply for CSSA together with their families may consider applying for the OALA on an individual or couple basis.

4.8 Some members also propose exploring the possibility of consolidating the elderly CSSA and the OALA to provide a basic pension for able-bodied poor elderly people. For the poor elderly with special needs, these members consider that it may be better to continue assisting them through the current CSSA system. Others, however, consider that if the payment received by the elderly remains the same after consolidation, the change will have no practical significance and might cause confusion because when the health of the elderly people deteriorates, they will need to revert to the CSSA as a safety net of last resort from the proposed consolidated scheme.

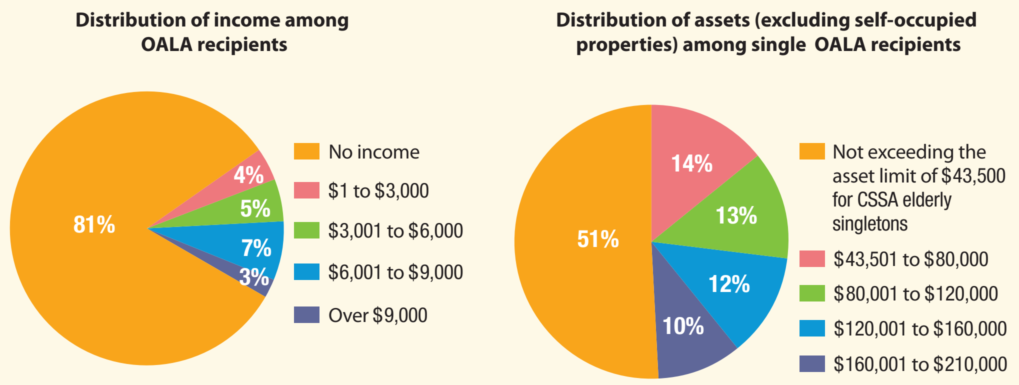
Old Age Living Allowance (Estimated expenditure for 2015-16: $12.8 billion)

4.9 Launched in April 2013, the OALA is the first major poverty alleviation measure implemented by the current-term Government. This allowance is specially designed for those elderly people aged 65 or above who have financial needs but are not able or willing to apply for the CSSA. The OALA payment serves as a subsidy for their living expenses. OALA applications are made on an individual or couple basis and the means test for the OALA is more lenient than that for the CSSA. The asset limit for the OALA ($210,000 for single persons and $318,000 for couples) is higher than that for the CSSA. Applicants are also required to meet an income limit of $7,340 for single persons or $11,830 for elderly couples. The OALA currently provides eligible applicants with a monthly supplement of $2,390. If an elderly couple applies for the OALA, they would receive a total of $4,780 per month.

4.10 As OALA applications are made on an individual or couple basis, there is no need for the applicants to declare the assets and incomes of their family members. Even if financial support is provided by family members for the applicants, such support will not be regarded as income in the means tests and will not reduce the allowance payable to the eligible elderly applicants. As a social security benefit with the largest number of elderly recipients, the OALA benefited more than 420 000 elderly people or almost 40% of the elderly population as at end June 2015. It has proven to be effective in lowering the elderly poverty rate, in addition to strengthening the retirement protection function of the social security pillar.

4.11 Among the some 420 000 OALA recipients, about 80% indicated that they had no income (excluding support from family members), and most of the recipients claimed having limited assets. For example, about 50% of the OALA singleton recipients owned assets of a value not exceeding the asset limit for CSSA elderly singleton recipients (see Diagram 4.4).

Diagram 4.4 Distribution of income and assets among OALA recipients



Source: Social Welfare Department

4.12 According to the poverty data in 2014, about 20 000 elderly OALA recipients living below the poverty line indicated that they still had financial needs. Some members hold the view that the OALA should be enhanced to provide better support for these elderly people with financial needs. In fact, two of the six options proposed by the stakeholders in the Report involve enhancement of the OALA. The CoP generally agrees that using the OALA as a platform to give more support to the poor elderly is a policy direction worth exploring.

Old Age Allowance (Estimated expenditure for 2015-16:$2.9 billion)

4.13 Elderly people reaching the age of 70 may apply for the OAA even if they have some assets or income. Commonly known as "fruit money", the OAA was launched in the 1970s to help the elderly meet their special needs arising from old age. OAA applicants are not required to pass any means test. Currently, the monthly payment received by each OAA recipient is $1,235. With the introduction of the OALA, OAA has become an allowance for those elderly without financial needs and for meeting their special needs arising from old age. It can also be viewed as a token of the community's appreciation of these elderly people. This has made it clear that poverty alleviation is not OAA's intended purpose. The CoP, therefore, agrees that the OAA will not be included in the present review. However, we must not overlook the importance of this allowance as a form of financial assistance to the some 220 000 elderly beneficiaries (as at end June 2015).

Guangdong Scheme (Estimated expenditure for 2015-16: $0.3 billion)

4.14 Elderly people who choose to reside in Guangdong may join the Guangdong Scheme. The amount of payment that they receive is the same as the OAA. Similar to the OAA, there is no means test for elderly applicants aged 70 or above. For elderly people aged between 65 and 69, they are required to pass a means test with the same asset and income limits as those for the OALA. As at end June 2015, the scheme benefited about 17 000 elderly people who chose to retire in Guangdong. Some members suggest that the OALA should be included in the Guangdong Scheme so that its coverage can be extended to Guangdong.

Disability Allowance (Estimated expenditure for elderly people aged 65 or above for 2015-16: $0.9 billion)

4.15 Subject to the fulfilment of the relevant eligibility criteria, elderly people in poor health conditions may apply for the DA. This allowance aims at helping those with severe disabilities to meet the special needs arising from their physical and health conditions. There is no means test for the applicants. Although the DA is not specially designed for elderly people, more than 30 000 elderly people were eligible for the allowance as at end June 2015 owing to their disabling conditions. The amount of monthly DA payment is $1,580 (normal DA) or $3,160 (higher DA), which is higher than the OAA. Compared to the assistance provided under the OAA, DA provides higher rates of allowance to elderly people with severe disabilities. As the DA is not targeted at providing assistance for the poor elderly, the CoP also agrees that this allowance will not be included in the present review.

Public services, family support and personal assets under the fourth pillar

4.16 The fourth pillar has a very wide coverage which includes both financial and non-financial support. The financial support for elderly people comprises mainly their properties and savings, and the financial assistance provided for them by their family members and relatives. Non-financial support for the elderly includes the various services provided by the Government, such as public housing, public healthcare services, subsidised residential and community care services, and the recently introduced Elderly Health Care Voucher Scheme and public transport fare concession scheme.

Although not in the form of cash benefits, these services can help elderly people reduce some of their daily spending. Moreover, according to the experience of the developed economies, around 10% of the elderly population will have certain level of physical impairment and need some form of medical or long-term care services. Therefore, the CoP considers that in addition to income protection, publicly-funded services such as housing, healthcare, elderly care, transportation and other public services are also indispensable for enhancing the support for the elderly.

Public services

Public housing

4.17 On housing, low-income families who cannot afford private rental accommodation may apply for PRH. The Government also provides HOS and other subsidised sale units to assist low- and middle-income families in home ownership. At present, more than half of the elderly people in Hong Kong live in subsidised housing units (including PRH and subsidised sale flats). With various housing priority schemes for the elderly people implemented by the Housing Authority, the waiting time for an elderly household to be allocated a public housing flat has been reduced[4]. As of end September 2015, the average waiting time for the elderly singleton was 2.0 years, shorter than the average waiting time of 3.6 years for ordinary applicants. Non-CSSA elderly households are exempted from paying rental deposit at the time of signing the tenancy agreement. Eligible elderly/tenants with financial difficulties living in Housing Authority's PRH units may apply for 50% rent reduction. If all members of a household living in Housing Authority's PRH unit are aged 60 or above, the household is exempted from declaration of income and assets under the "Well-off Tenants Policies" and can continue to pay normal rent. Besides, the Hong Kong Housing Society implements the Senior Citizen Residences Scheme which integrates purpose-built housing for the elderly with comprehensive health and care facilities. The housing units are leased out to eligible middle-income elderly under a "lease for life" arrangement.

Public healthcare for the elderly (Estimated expenditure for 2015-16: $25.8 billion[5])

4.18. The CoP recognises that the elderly are particularly concerned about their health conditions and the availability of appropriate healthcare services when they are sick. As the healthcare safety net for Hong Kong people, the public healthcare system provides the elderly and other members of the public with access to healthcare services at highly subsidised rates (at present, the Government's overall subsidisation rate is as high as 97%). Besides, the Hospital Authority (HA) has a medical fee waiver mechanism to assist the elderly and other patients who cannot afford the public healthcare service charges owing to financial difficulties and can meet the eligibility assessment. The HA-managed Samaritan Fund also provides financial assistance to needy patients who meet the specified clinical criteria and pass the financial assessment to meet expenses for self-financed drugs or Privately Purchased Medical Items required in the course of medical treatment which are not covered by the standard fees and charges in public hospitals and clinics. In addition, all CSSA recipients (including the elderly people) are entitled to free public medical services. With such financial assistance, no elderly people will be denied adequate medical care owing to lack of means.

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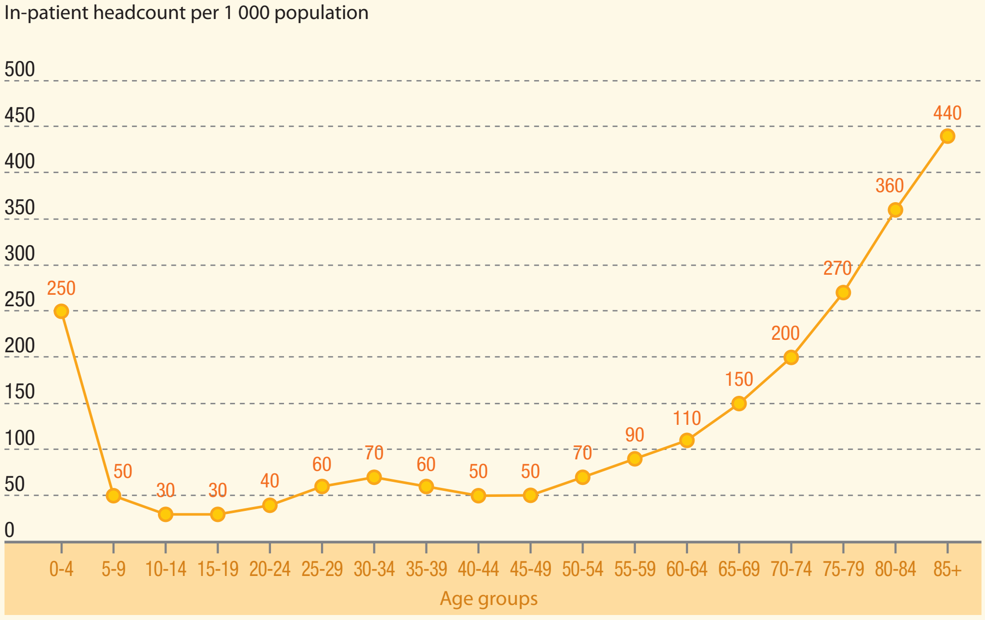
4 Waiting time refers to the time taken between registration for PRH and first flat offer, excluding any frozen period during the application period (e.g. when the applicant has not yet fulfilled the residence requirement; the applicant has requested to put his/her application on hold pending arrival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

5 The figure covers only the healthcare expenditure for the elderly and is not the total public healthcare expenditure.

4.19 The expenditure on public healthcare services for the elderly people in 2014-15 amounted to $23.9 billion, which was the second largest single expenditure item related to the elderly after social security. The sum was mainly spent on HA's services such as hospitalisation, accident and emergency, specialist out-patient clinics (SOPCs), general out-patient clinics (GOPCs) as well as other day and outreaching services. The rest was for the primary healthcare services of the Department of Health (DH). In fact, about 46% of the HA's total expenditure in 2014-15 was spent on services for elderly patients.

4.20 Given the trend of ageing population, elderly people will remain the major users of public healthcare services. The elderly's utilisation rate of healthcare services rises almost exponentially as they get older (see Diagram 4.5). It is worth noting that longer average life expectancy will cause the proportion of elderly people aged 75 or above to increase from 7.6% in 2014 to 22.6% in 2064 (see Diagram 4.6). In 2014, the proportion of elderly population in Hong Kong was about 15%, but elderly people accounted for 38% of the GOPC visits and their share of patient days in all HA's hospitals was 50%. The risk of hospitalisation for the elderly is about four times that for the non-elderly (see Diagram 4.7). In addition to the rising number of elderly in-patients, elderly people also suffer from more complicated diseases. For example, chronic diseases such as hypertension, stroke, diabetes and dementia are becoming more prevalent among elderly people. This will no doubt impose a heavier burden on the public healthcare system. It is estimated that the costs of healthcare services for the elderly will be tripled after 50 years[6].

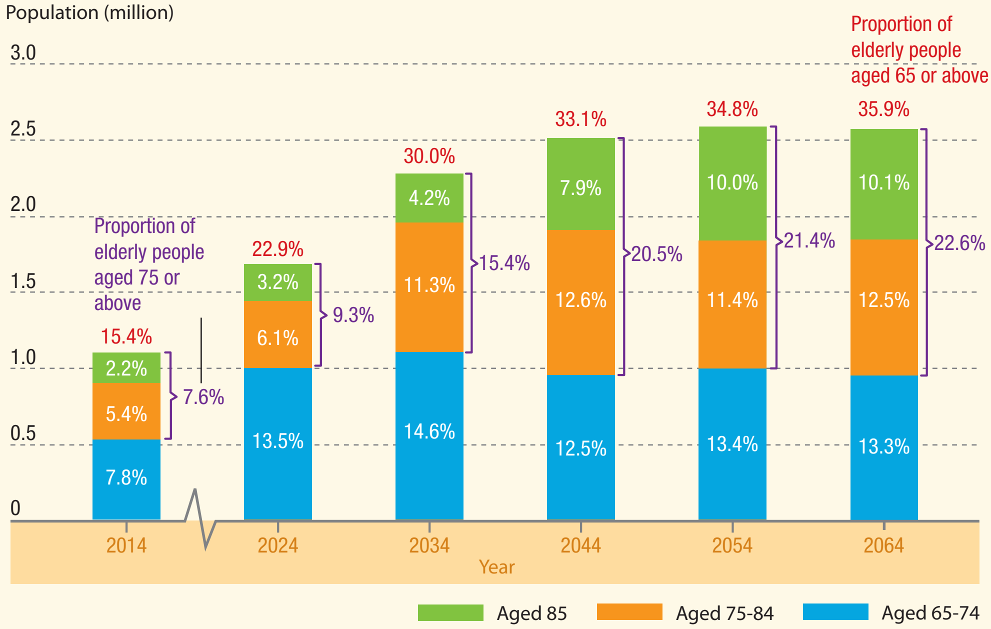
Diagram 4.5 Healthcare service utilisation rate rises sharply for the elderly aged 65 or above (2010)



Source: HA I.T. System

6 This estimate is purely on account of the growth of the elderly population i.e. assuming no inflation and no service enhancement over time during the projection period.

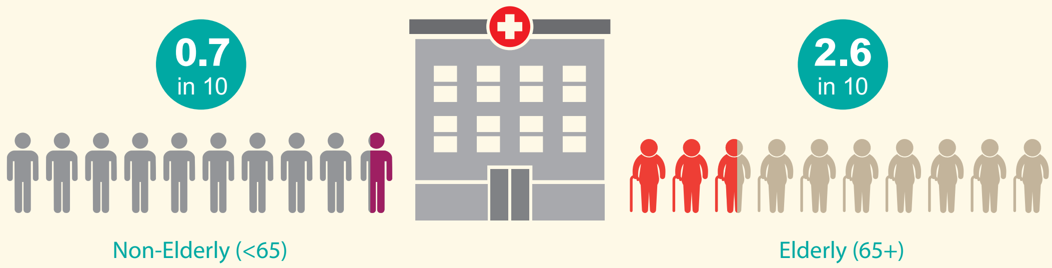
Diagram 4.6 Proportion of elderly people aged 75 or above increases substantially



Note: Actual figures for 2014; projected figures for other years.
Numbers may not add up to the total due to rounding.
Source: Census and Statistics Department

Diagram 4.7 Risk of hospitalisation for the elderly (in comparison with the non-elderly)

Ever admitted to any HA hospital* (General specialty)



Remarks: (*) Figures in 2010.
Age 0 are excluded in the calculation of hospital service utilisation.

Hospital Bed Requirement* (General specialty)

Note: (*) Figures in 2010.
Age 0 are excluded in the calculation of hospital service utilisation.

Source: HA I.T. System

4.21 In 2012, the HA devised the Strategic Service Framework for Elderly Patients to provide guidelines for the development of elderly healthcare services given an ageing population. The HA currently has about 27 600 beds. As the population is increasing and ageing, it is estimated that about 5 000 additional general beds will be needed by 2025-26. Hospital development or redevelopment projects which are being carried out or in the pipeline should be able to handle this extra demand. To meet the challenges of population ageing, the Food and Health Bureau is formulating a long-term hospital development blueprint. In addition, the Steering Committee on Strategic Review on Healthcare Manpower Planning and Professional Development is considering ways to cope with the anticipated demand for healthcare manpower and promote professional development, and will put forth recommendations in the first half of 2016.

4.22 The CoP has also expressed concern that the waiting time for some SOPCs (e.g. orthopaedics and psychiatry) is too long for the elderly. In October this year, the HA launched an Action Plan in response to the Report of the Steering Committee on Review of Hospital Authority published earlier. As part of this Action Plan, HA will implement a series of measures within the next three years to shorten the waiting time of SOPCs, including making better use of the services of the Family Medicine Specialty Clinic to relieve the caseload of concerned SOPCs, and increasing the trials of cross-cluster booking, etc. However, the CoP considers that the HA still needs to take further action to shorten the waiting time for SOPCs.

4.23 The CoP is of the view that the HA should, apart from increasing its service capacity and shortening the waiting time, further improve the mode of service delivery. This includes enhancing co-operation with other sectors (e.g. the DH, welfare sector and private medical sector) in the provision of primary care and rehabilitation services to reduce the risk of hospitalisation for elderly people or their re-admission to hospital. This will relieve the burden on the public medical sector.

4.24 In addition to the provision of general healthcare services, the HA and DH also provide a wide range of healthcare services specially designed for elderly people. These include geriatric day hospitals, reserved quotas for the elderly at GOPCs, outreaching services for discharged elderly patients, outreach medical consultation services provided by community geriatric assessment teams for elderly patients residing in residential care homes, and comprehensive primary healthcare services provided through elderly health centres. For dental care, the Government provides free outreaching dental care services and treatments for the elderly in residential care homes, day care centres and similar facilities. Elderly CSSA recipients are eligible for dental grant. Starting from September 2015, the Community Care Fund has been providing in phases free removable dentures and other related dental services for elderly people who are OALA recipients by phases, starting with those aged 80 or above in the first phase involving about 130 000 elderly people.

4.25 To supplement public healthcare services, the Elderly Health Care Voucher Scheme subsidises elderly people aged 70 or above to use private primary care services, including medical and preventive care service (e.g. health assessment) provided by medical practitioners, Chinese medicine practitioners, dentists and other seven types of registered healthcare professionals. The annual voucher amount is $2,000. In October this year, the Government and the University of Hong Kong-Shenzhen Hospital launched a pilot scheme to allow Hong Kong eligible elderly people to use their health care vouchers for the out-patient services provided by designated clinics/departments of the hospital.

4.26 Over the past few years, the Government has implemented a number of public-private partnership programmes (PPP) to meet the increasing demand for public healthcare services. Some of these programmes such as the Cataract Surgeries Programme and Elderly Vaccination Subsidy Scheme are targeted at elderly people. Since mid-2014, the HA has implemented, on a pilot basis, the General Out-patient Clinic Public-Private Partnership Programme (GOPC PPP) in three districts. The GOPC PPP aims not only to help relieve the demand for the HA's general out-patient services, but also to make available medical services for the elderly at locations near their homes, thus saving them from the hassle of travelling. In 2015-16, the Government will allocate $10 billion to the HA for setting up an endowment fund. The HA will make use of the investment returns from the fund to regularise and enhance the PPP initiatives being undertaken on a pilot basis, and develop new clinical PPP initiatives in future, such as extending the GOPC PPP in phases to the remaining 15 districts.

4.27 The CoP is of the view that the manpower problem in the public healthcare system also calls for our immediate attention. While recognising the efforts of the Government and the medical sector in the past few years to address the issue, the CoP sees the need for a more thorough revamp, which includes more vigorous effort to attract medical professionals from abroad, especially Hong Kong students and the second generation of Hong Kong emigrants who have completed medical studies overseas.

Community and residential care (Estimated expenditure for 2015-16: $6.8 billion)

4.28 About 6% of the elderly people in Hong Kong are living in residential care homes for the elderly (RCHEs). This percentage is higher than the 1% to 5% recorded in many countries or places. The CoP considers that the Government should step up its effort to fully implement the policy of "ageing in place as the core, institutional care as back-up". On the one hand, the Government should strengthen the development of community care services so as to help the elderly people age at home as far as practicable. On the other hand, the Government should adopt a multi-pronged approach to increasing the residential care places and building more contract homes for the elderly in need of residential care services. In 2014-15, the recurrent expenditure on community and residential care for the elderly was $6.2 billion. It is estimated that the expenditure will triple after 50 years[7].

4.29 For home care services, the additional 1 666 Enhanced Home and Community Care Services places provided by the Government over the past two years have all been in place from June 2015. By adopting a "money-following-the-user" approach, the Government is piloting a voucher scheme on community care services for the elderly. Details of the next phase of the pilot scheme will be worked out having regard to the results of the mid-term evaluation. Further to the provision of nearly 100 additional day care service places in this and next years, the Government has earmarked sites in 11 development projects to construct new day care centres or units for the elderly. It is expected that some 550 additional day care service places will be provided in the new centres or units.

4.30 Around 1700 additional subsidised residential care places for the elderly will be provided from 2014-15 to 2017-18. The Government has also earmarked sites in 16 development projects for the construction of new RCHEs, which will provide about 1 700 new residential care places. The Government will continue to identify suitable sites to construct contract RCHEs and purchase places from private or self-financing RCHEs.

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7 This estimate is purely on account of the growth of the elderly population, i.e. assuming no inflation and no service enhancements over time during the projection period.

4.31 In face of keen demand for residential care places, merely relying on the current funding mode to increase the provision of service places may not be able to meet the demand. As mentioned in paragraph 4.7 above, the Government has commissioned the Elderly Commission to conduct a feasibility study of a voucher scheme on residential care services for the elderly with a view to better utilising the non-subsidised vacancies of RCHEs to meet service demand.

4.32 For the medium to long term, the Government injected $10 billion into the Lotteries Fund in 2014 to implement the Special Scheme on Privately Owned Sites for Welfare Uses. It aims to better utilise the sites granted to non-governmental organisations through expansion or redevelopment with a view to providing more welfare facilities which are in keen demand. The scheme has received positive responses from over 40 organisations, involving more than 60 projects. If all these projects are implemented as proposed by the organisations, as many as 17 000 additional service places will be provided for the elderly and persons with disabilities in the coming five to 10 years or so. These service places will include around 7 000 residential care places and 2 000 day care places for the elderly. In addition, the Elderly Commission is formulating the Elderly Services Programme Plan with a view to making comprehensive and long-term planning for elderly services.

4.33 Heavily subsidised by public money, the subvented residential care services will only cost the elderly users $1,600 to $2,000 per month (compared to the Government's cost of about $9,900 to $21,000 per month), while the fee for day care services is $900 to $1,000 per month (compared to the Government's cost of about $7,700 per month). The fee for home care services varies according to the elderly users' household income and service usage. For example, the charge for meal delivery services ranges from $12.6 to $18.6 each time while that for home-based care services is $5.4 to $19 per hour (compared to the Government's cost of $1,800 to $4,600 per month). Currently, there are 210 subsidised elderly centres in the territory providing support services for elderly people living in the community. The public transport fare concession scheme encourages elderly people to actively take part in social activities.

4.34 At present, the average waiting time for subsidised care and attention home places is about 20 months, and that for subsidised nursing homes is 28 months. The waiting time for subsidised day care and home care services is seven and five months respectively. The CoP considers that there has been a shortfall in the supply of elderly services over the years. As the problem will be aggravated by population ageing, the Government should look into ways to reduce the waiting time. The CoP's proposals include stepping up efforts to achieve the objective of ageing in place by substantially increasing the provision of community care services, better coordination between the Housing Department and the Social Welfare Department in considering the allocation of spaces for RCHEs or day care centres in public housing developments, and exploring ways to make better use of private or self-financing RCHEs. The CoP also thinks that the Government should take action to address such issues as the service quality, manpower shortage and conditions of service in the elderly care service industry.

Family support

4.35 On family support, Chinese cultural traditions are still deeply rooted in the Hong Kong community. About 76% of the elderly are living with their families or relatives. This reflects the importance attached to family values in our community. As mentioned in paragraph 2.13 of Chapter 2, a large portion of the retired persons are financially supported by their family members, and the median monthly financial support is about $4,000 (at 2012 price). That said, we have to pay attention to the fact that there are some elderly people who are not in the care of their families. Taking into account the fewer number of children in a family, the relatively fewer opportunities for upward mobility for young people nowadays, and the increasing number of people who choose to remain single, the financial support elderly people will receive from their family members may be reduced in the future.

4.36 The CoP has taken note that there are various policy initiatives in place to encourage support and care for elderly family members. These measures include Dependent Parent and Dependent Grandparent Allowance, various schemes operated by the Housing Authority that encourage PRH tenants to live with or move closer to their elderly family members, as well as support for carers to take care of the elderly people living in the community. On tax deductions, the allowance for supporting a parent or grandparent aged 60 or above is $40,000 and the maximum limit for the deduction of elderly residential care expenses is $80,000. The CoP reaffirms the important role of the family in caring for the elderly, and the need to encourage and facilitate family support for the elderly people through public policy measures.

Personal assets

4.37 The CoP has taken note that there are more and more elderly singletons and two-person elderly households residing in self-owned properties with no mortgage (including private and HOS flats). The proportion of these households has increased from 60 000 or so in 2004 to about 120 000 in 2014. Many elderly people have become "asset-rich, income-poor" because properties are valuable assets in Hong Kong. The CoP considers that the Government should explore ways to help elderly people convert their assets into cash flow to improve their financial position.

4.38 Launched by the Hong Kong Mortgage Corporation Limited (HKMC) in 2011, the reverse mortgage aims to help elderly people take out loans from banks by using their properties as collateral. By doing so, an elderly borrower can receive a stable monthly payout and continue to stay in the original property to age in place. Upon the death of the elderly borrower, his/her inheritor(s) may directly repay the loan to the bank or sell the property for making the repayment. Since 2011, there are more than 1 000 approved reverse mortgage cases (see Diagram 4.8). The CoP considers that given the trend of population ageing and longer average life expectancy, the reverse mortgage market in Hong Kong has great potential for development. More and more elderly people, particularly those without children, may wish to increase their monthly disposable income and improve their quality of life through reverse mortgage. The CoP suggests that the HKMC should improve the operational details of reverse mortgage, and enhance publicity and supervision to make it more appealing to the elderly.

Diagram 4.8 Key statistics on the Reverse Mortgage Programme (as at end October 2015)

Cumulative number of applications	1 034
Type of application	One borrower: 65% Two borrowers: 34.8% Three borrowers: 0.2%
Payment term	10-year: 30% 15-year: 16% 20-year: 13% Life: 41%
Age of borrower	69 on average (from 55 to 95)
Appraised property value*	$4.9 million on average (from $800,000 to $45 million)
Monthly payout	$14,700 on average (from $0 to $160,000)
Age of property	30 years (from 1 to 61 years)

Note: (*) A discount will be applied to any property valued over $8 million or any refinancing property under the reverse mortgage arrangement in computing the property value for payout calculation. The maximum property value for payout calculation is capped at $15 million for any property valued at $25 million or above.

Source: HKMC

4.39 The CoP is also aware that the tradition of transferring property ownership to one's own children or relatives is still common in the elderly community. To meet the wish of these elderly people, the CoP suggests integrating the efforts of other sectors (such as social enterprises) to help elderly people let out the whole or part of their properties. This will release the value of the properties and bring rental income to the elderly while enabling them to attain ownership. The housing resources could also be better utilised to address the housing needs of other households.

Chapter 5
Current State of the Second and Third Pillars

Mandatory Provident Fund as the second pillar

5.1 Under the multi-pillar model advocated by the World Bank, the second pillar is a privately-managed, employment-based mandatory contribution scheme (i.e. with individual savings accounts). In other words, the benefits a scheme member receives upon retirement are directly related to the contribution levels of himself/herself and his/her employer(s). In Hong Kong, the second pillar takes the form of MPF schemes, MPF-exempted Occupational Retirement Schemes, Civil Service Pensions, Grant/Subsidized Schools Provident Funds, etc. In terms of the number of participating employees and accumulated total asset values, the MPF System ranks the highest among the aforementioned schemes.

5.2 The MPF System is an employment-based, privately-managed mandatory defined contribution system. It has been playing an important role in the entire retirement protection system. Going forward, the System will be further developed on two major fronts: (i) continued operational improvements to MPF to safeguard the retirement benefits of employees; and (ii) reinforcement of the complementarity between the MPF and other pillars to take care of those who are not adequately protected under MPF schemes.

5.3 Employers are required under the Mandatory Provident Fund Schemes Ordinance (Cap. 485) to arrange for their employees aged 18 or above but under 65 to join an MPF scheme, unless the employees concerned are exempt persons or have already joined other MPF-exempted Occupational Retirement Schemes. Self-employed persons aged 18 or above but under 65 are also required to join an MPF scheme. The MPF System has been implemented for 15 years only. When the System matures, its function to provide retirement protection can hardly be taken up by other pillars. There are two reasons for this.

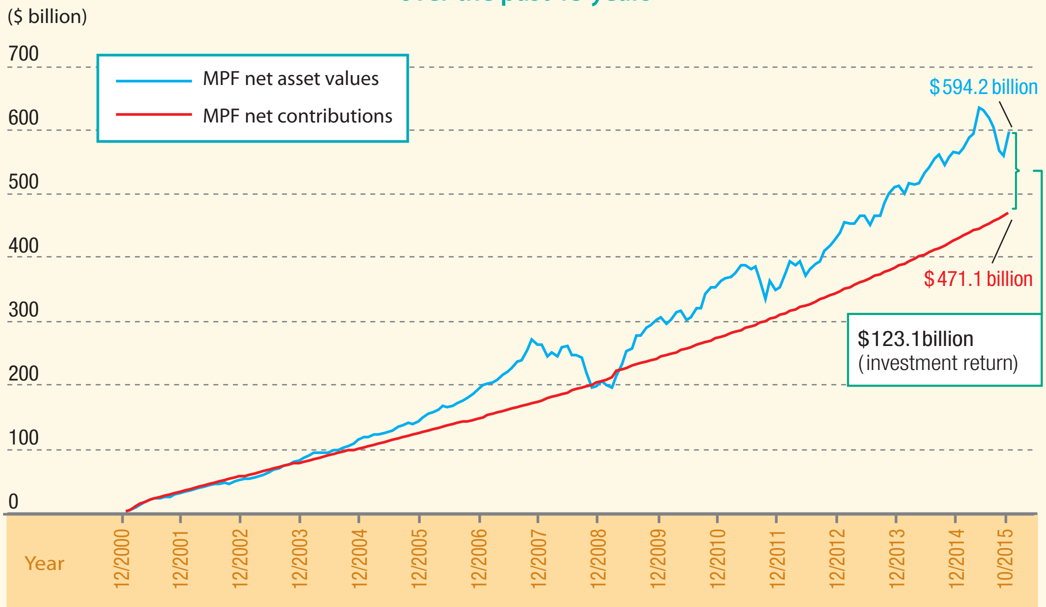
5.4 First, the System caters for the working population. The fact that it is a mandatory scheme makes its coverage very wide. At present, about 2.55 million employees are enrolled in MPF schemes, representing 100% of the employees required by law to join the schemes. This is a very high rate by international standards. In addition, another 210 000 self-employed persons are also scheme members. Second, employers and employees must contribute a specific amount according to the law. As the MPF System is a privately-managed mandatory contribution system, employees can withdraw accrued benefits from their accounts at or after 65 years old or under other special circumstances, irrespective of the Government's financial condition. As such, the MPF System can enhance the certainty of retirement income for employees.

5.5 There has all along been a lot of discussion in the community about the design and operation of the MPF System. Members of the public are particularly concerned about the adequacy of the MPF System in providing sufficient retirement protection, its investment performance and fee levels, as well as the "offsetting" arrangement.

Contribution rates, maximum and minimum levels of relevant income and investment returns

5.6 Whether MPF accrued benefits are adequate to support one's retirement life is directly linked to the contribution rates, maximum and minimum levels of relevant income[1] and investment returns. An employer and an employee are each required to contribute 5% of the relevant employee's income, and a self-employed person is also required to contribute 5% of his/her income. At present, employees or self-employed persons earning less than the minimum relevant income level, i.e. $7,100 a month, do not need to contribute but employers still need to make their contributions for the employees. For employees or self-employed persons earning more than the maximum relevant income level, i.e. $30,000 a month, the employees and their employers or the self-employed persons do not need to make contributions for the part of income above this level. As at end October 2015, MPF assets had increased to $594.2 billion, of which about $123.1 billion were investment returns (see Diagram 5.1).

Diagram 5.1 MPF net asset values, net contributions and investment return over the past 15 years



Source: Mandatory Provident Fund Schemes Authority (MPFA)

5.7 Currently, there are a total of 38 registered MPF schemes operated by 15 approved trustees[2], offering a total of 457 MPF constituent funds. Employers select MPF schemes from which scheme members (i.e. employees) can choose the constituent funds. The choices of constituent funds made by scheme members have an impact not only on the returns of their accrued benefits but also on the overall investment returns of the MPF System. Since its implementation, the entire MPF System has, as at end October 2015, achieved an annualised internal rate of return of 3.4% (net of fees and charges), which is higher than the inflation rate of 1.8% for the same period. As the portion of MPF accrued benefits investing in Hong Kong equities is rather high, driven by corresponding changes in the Hong Kong equity market, the yearly performance of the MPF System fluctuated, ranging from a negative annualised return of -25.9% to a positive annualised return of 30.1% for different years (see Diagram 5.2).

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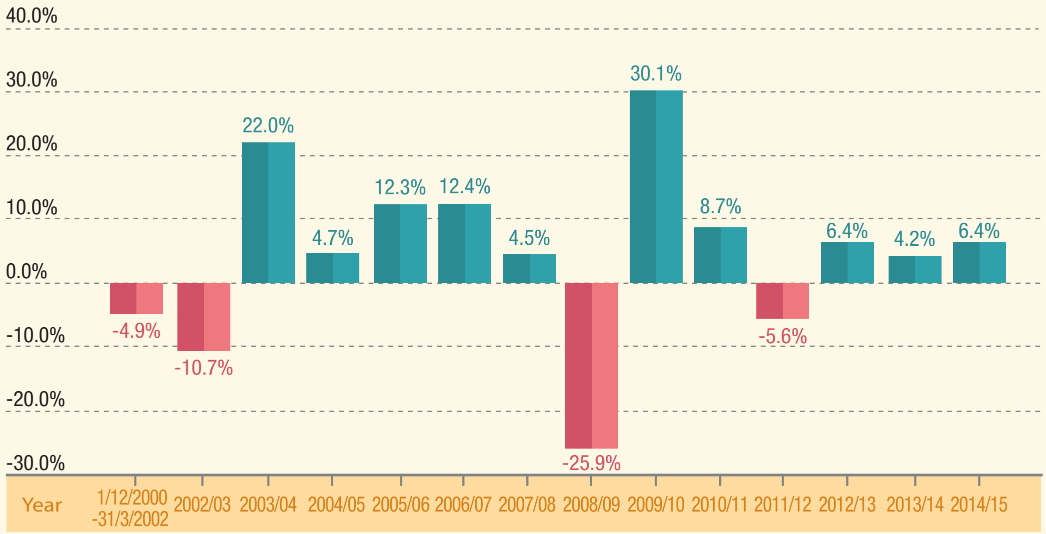
1 Section 9 of the Mandatory Provident Fund Schemes Ordinance (Cap. 485) stipulates that self-employed persons or employees whose monthly income is less than the minimum level of relevant income are not required to make mandatory contributions but relevant employers are not exempted. According to section 10 of the Ordinance, neither employers, employees nor self-employed persons are required to make mandatory contributions in respect of the wages in excess of the maximum level of relevant income. Section 10A of the Ordinance stipulates the adjustment mechanism for the minimum and maximum levels of relevant income, which includes conducting a review at least once every four years, and the adjustment factors that must be taken into account when conducting the review.

2 At present, 19 trustees are approved by MPFA for operating MPF schemes, but only 15 of the approved trustees are active in the MPF market.

Diagram 5.2 MPF's annualised internal rate of return in the past 10 years or so



Source: MPFA

5.8 If an employee whose monthly salary is $15,000 (i.e. same as the median income of employed persons in 2014) makes contributions from the age of 25 to 65 during which there is no pay adjustment in real terms nor "offsetting" arrangement[3], his/her MPF benefits, estimated at an annualised internal rate of return of 1.6% after discounting inflation[4], will be around $1 million upon retirement at the age of 65. If we divide the amount into monthly payments based on the average life expectancy of persons aged 65 (85 years for male; 89 years for female), this person can receive a monthly income of about $4,200 (male) or $3,500 (female) upon retirement[5].

5.9 Given the current contribution rate, the MPF can only provide basic retirement protection for the working population making an average income, and should be complemented by sources of income under other pillars (such as voluntary savings or family support). In fact, the MPF System is designed to be one of the sources of income after retirement. There are views that the contribution rate or the maximum relevant income level should be raised to strengthen the retirement protection function of the MPF System. Take the privately-managed mandatory occupational contributory pension plans in Denmark and Australia as examples. In Denmark, employers and employees generally contribute a total of 9% to 17%. In Australia, only employers make contributions and the contribution rate will be raised progressively from 9% in 2013 to the present 9.5% and further to 12% in 2025. Others are of the opinion that maintaining the contribution rate at a lower level can reduce the financial burden of monthly contributions borne by employees and self-employed persons (especially those with a low income). Employees will also be able to make other retirement financial planning with their other savings (e.g. taking out an endowment policy). To employers, increasing the contributions will mean higher operating costs. Besides, arrangements are already in place for employers or scheme members to make voluntary contributions under the MPF System.

3 This is based on an example cited by the MPFA. By "no pay adjustment in real terms", it means the pay is only inflation-adjusted without increase in real terms.

4 Since the implementation of MPF System and up to end October 2015, the annualised internal rate of return is 3.4%. The inflation rate for the same period is 1.8%.

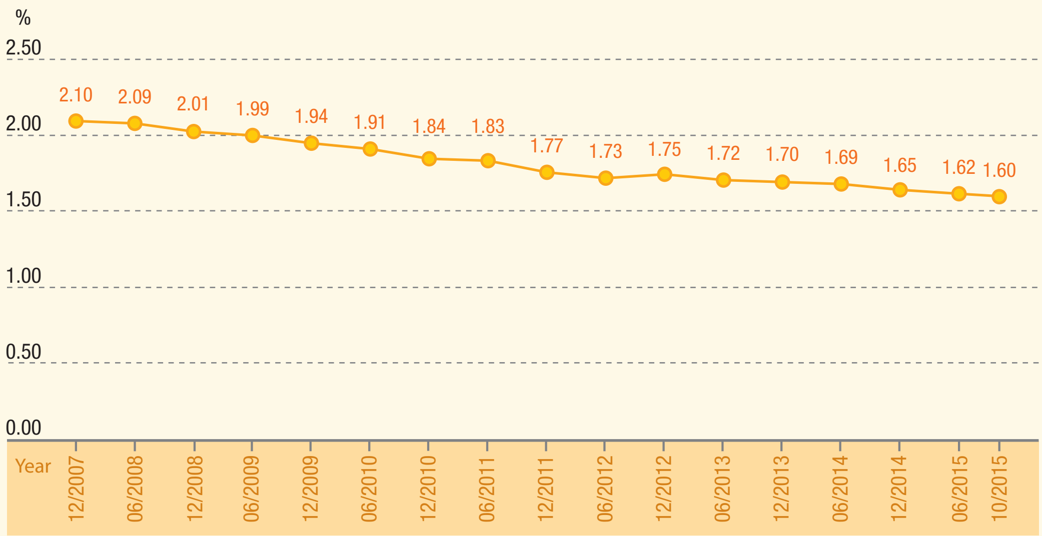
5 Assuming that the rate of return of the MPF benefits withdrawn is the same as the inflation rate. All figures in this example are at 2015 price.

Reduction of fees and other improvement measures

5.10 Owing to the short history of the MPF System, the accrued benefits accumulated by elderly people who have recently retired or will retire soon are limited. However, as the MPF System matures, the contributions and benefits accrued will increase. Both the Government and the Mandatory Provident Fund Schemes Authority (MPFA) are committed to refining the MPF System. Measures include ensuring the compliance of employers and trustees with legislative requirements to protect scheme members' benefits; streamlining the administrative and operational procedures of the MPF schemes to reduce costs; disclosing information on the performance, fees and services of MPF schemes to enhance transparency; implementing the Employee Choice Arrangement to strengthen employees' control over MPF investments; and allowing withdrawal of MPF accrued benefits by instalments upon retirement to increase flexibility.

5.11 As MPF schemes are privately-managed, it is legitimate for trustees to charge for their services. It is the reasonableness of the fee levels that has been causing public concerns. Through a series of fee reduction measures, including the introduction of the "semi-portability" (i.e. the Employee Choice Arrangement) in 2012, the average fund expense ratio (FER) of MPF constituent funds has dropped by about 24% from 2.10% in end 2007 to 1.60% in October 2015. This is a record low since the launch of the FER in 2007 (see Diagram 5.3). In addition, about 40% of the existing MPF constituent funds are low-fee funds, meaning an FER of not more than 1.30% or management fees not more than 1.00%.

Diagram 5.3 The average FER dropped by 24% since 2007



Source: MPFA

5.12 However, the CoP considers that the MPFA has to continue its efforts in reducing fees as there is still a gap between the existing fee levels and the general expectation of scheme members. Reducing fees must remain one of the priorities in the future. The CoP also considers that the primary objective of the MPF System is to safeguard scheme members' retirement benefits. Both the Government and the MPFA are obliged to take all practicable measures to reduce fees and streamline the administrative arrangements so that scheme members will be provided with maximum protection under the System.

Limited protection for low-income earners

5.13 As mentioned in paragraph 5.9, the MPF can only provide basic retirement protection for the working population earning an average income. The contributions made at the existing rate of 10% will not be sufficient for scheme members, especially the low-and middle-income group, to accumulate adequate MPF benefits upon retirement. For employees who earn less than the minimum relevant income level, their MPF accrued benefits will be even less, as their benefits will only be derived from their employers' contributions (i.e. 5%). For self-employed persons who earn less than the minimum relevant income level, they need not make any contribution. This also applies to individuals without stable long-term employment. As their total years of service are shorter with fewer contribution periods, they will receive less MPF accrued benefits upon retirement. To them, the MPF System may not be a reliable pillar of retirement protection.

5.14 While a higher contribution rate may increase the retirement savings, the analysis in paragraph 5.9 indicates that we need to balance a number of factors such as the impact on employers, employees and self-employed persons. The CoP considers that the other pillars should be better used to enhance the protection of low-income earners or people without stable employment. For instance, we should consider the need to enhance the social security pillar which serves as a safety net of last resort for those elderly people not having full retirement protection under the MPF System or other pillars.

Non-working population not covered

5.15 As an employment-based mandatory savings scheme, the MPF System is not intended to cover the non-working population, such as housewives. This is not unique to Hong Kong. The case is the same for the employment-related contributory pension plans in other places, where protection for the non-working population is provided under other pillars. Some members propose that we should consider providing tax concessions to incentivise married employees to make voluntary MPF contributions for their non-working spouses. This would be in line with the policy of encouraging family support, and would reinforce the retirement protection function of the third pillar. However, other members consider that this would require separate arrangement under the current tax regime and given our low tax rate, the measure might not be very effective.

Reduced protection due to "offsetting"

5.16 "Offsetting" is an arrangement that allows employers to use funds which include MPF accrued benefits to offset severance payment or long service payment stipulated under the Employment Ordinance (Cap. 57). According to the information provided by the MPFA, between July 2001 and end 2014, MPF benefits withdrawn for "offsetting" amounted to $25 billion, representing 29% of the total benefits withdrawn during that period. The Chief Executive stated in his Election Manifesto that we should "adopt measures to progressively reduce the proportion of accrued benefits attributed to employer's contribution in the MPF account that can be applied by the employer to offset long service or severance payments".

5.17 Based on the more detailed information provided by MPFA for the first time, of the $3 billion MPF benefits withdrawn in 2014 for "offsetting" purposes, $1.66 billion was for offsetting severance payments and $1.35 billion for offsetting long service payments, involving 15 600 employers (or 5.7% of all enrolled employers) and 43 500 employees (or 1.7% of all enrolled employees). The average "offsetting" amounts per employer and per employee were $192,800 and $69,200 respectively (see Diagram 5.4).

Diagram 5.4 Claims related to "offsetting" in 2014

Type of claims	MPF benefits withdrawn for "offsetting"	Number of claims#	Number of employers involved@	Average "offsetting" amount per employer	Number of employees involved@	Average "offsetting" amount per employee
Severance payment	$1.656 billion	30 900	9 100	$182,100	29 700	$55,800
Long service payment	$1.351 billion	14 500	7 200	$187,500	13 800	$98,000
Overall	$3.006 billion	45 400	15 600 (5.7%)*	$192,800	43 500 (1.7%)*	$69,200

Notes: (#) Since a claim case may involve more than one claimant (e.g. both the employer and the employee can make claims with trustee(s) for the same claim case), the number of claims refers to the number of claims made by the claimants but not the unique number of claim cases in 2014.

(@) The respective numbers of employers and employees involved are only the aggregate of the relevant figures of all schemes without taking into account any multiple claims involving the same employer/employee made in different schemes in 2014.

(*) Figures in ( ) denote the percentage of enrolled employers and employees subject to the "offsetting" arrangement.

Source: MPFA

5.18 Severance payment and long service payment were introduced under the Employment Ordinance in 1974 and 1986 respectively. They seek to provide compensation for employees who are dismissed owing to redundancy or other reasons after having served the same employer for a certain period of time. The compensation helps alleviate their financial hardship caused by loss of employment. "Offsetting" provisions were incorporated into the Ordinance at the same time when the severance payment and long service payment were introduced. The provisions allow employers to use the gratuity based on the length of service paid to employees or contributions made to retirement schemes on a voluntary basis to offset severance payments or long service payments payable to their employees.

5.19 Annex 3 lists in chronological order the introduction of severance payment, long service payment and the relevant "offsetting" provisions, as well as the subsequent amendments made to the "offsetting" provisions. In CoP's discussions about this issue, some members consider that at the time when severance payment and long service payment were introduced, the Government had not stated explicitly that these two compensation measures for employees would carry the function of retirement protection. However, other members point out that on subsequent occasions, the Government had explained to the Legislative Council that severance payment and long service payment were introduced as alternatives to retirement protection. Based on the Government's speech on "offsetting" arrangement delivered in the Legislative Council and the contents of the consultation document on retirement protection published in 1992 about long service payment, it was difficult to say categorically that these two measures were totally unrelated to retirement protection.

5.20 No matter how the relationship between severance payment/long service payment and retirement protection should be interpreted, the fact is that prior to the establishment of the MPF System, there were no mandatory retirement protection schemes in Hong Kong. In order to encourage employers to set up voluntary pension plans, the Government at that time proposed the "offsetting" arrangement so that employers would not need to pay twice. There might be good reasons for putting forth this arrangement when the voluntary pension plans were introduced, but some members of the community have questioned the decision to keep this arrangement after implementation of the MPF System.

5.21 Trade unions and organisations have all along requested the Government to abolish the "offsetting" mechanism. Judging from the amount of MPF benefits withdrawn for "offsetting" over the years, "offsetting" will, no doubt, reduce employees' retirement savings. For the 43 500 employees affected by the "offsetting" arrangement in 2014, on average, about 94% of the relevant employers' contributions were withdrawn for "offsetting" purposes. This has weakened the retirement protection function of the MPF System. Apparently, employees earning less than $7,100 a month who are not required to make their own contributions are most affected.

5.22 There are views that the impact of changes to "offsetting" arrangement on employment relationship, terms of employment and job opportunities should be handled cautiously. Employer groups point out that the "offsetting" arrangement was a prerequisite for their support for establishing the MPF System and endorsing the Mandatory Provident Fund Schemes Ordinance so that employers would not need to pay twice. They consider that abolition of the "offsetting" arrangement would not only be a breach of the consensus reached, but also an increase in their financial burden, especially the small and medium enterprises (SMEs). Employers generally share the view that severance payment/long service payment and the MPF overlap in the purposes of retirement protection. Some enterprises now adopt the "offsetting" arrangement to make provisions for severance payment and long service payment. If the "offsetting" arrangement is abolished, enterprises will need to make additional reserve to meet financial accounting requirements. This may affect the cash flow and business operation of the enterprises. We therefore need to assess the related implications.

5.23 On the other hand, some are of the view that "offsetting" may impede the implementation of "full portability", a measure which will help enhance market competition and further reduce fees levels. "Full portability" will allow employees to choose an MPF scheme not only for their own contributions, but also for the portion contributed by their employers. Given that employees are at free hand to transfer their employers' portion of contributions under 'full portability' and that they may invest the employers' portion of contributions in high risk funds, employers are concerned that in case the investment in such funds suffers losses, they will have to pay most of the severance payments and long service payments out of their own pockets. Therefore, some employers may not be willing to support "full portability" as they want to retain their contributions for "offsetting".

5.24 Purely from the perspective of retirement protection, the CoP considers that the "offsetting" arrangement will undoubtedly give rise to benefits leakage from the MPF System, weakening its retirement protection function. This notwithstanding, the CoP emphasises that in dealing with the "offsetting" issue, we should not simply resort to a choice between "keeping" or "abolishing" the arrangement. When reviewing the "offsetting" arrangement, we also need to consider ways to rationalise the relationship between severance payment/long service payment and the MPF.

5.25 The CoP also considers that the complexity of the "offsetting" issue should not be underestimated and is aware of the concern of employers about rising operating costs. If the Government considers it appropriate to abolish the "offsetting" arrangement progressively, the community should be allowed to fully discuss when and how to abolish the arrangement so that the impact on employers can be minimised. The CoP is of the view that the community should make good use of the opportunity offered by this consultation to conduct thorough and in-depth discussion on the impact of the feasible options for addressing the "offsetting" issue on employers and employees, as well as the role of the Government. The community should endeavour to find a way acceptable to both employers and employees. By so doing, we will be able to safeguard the interests of low-income earners and further strengthen the MPF pillar and the entire retirement protection system. The community should also consider ways to rationalise the relationship between severance payment/ long service payment and the MPF System, and discuss mitigation measures which can reduce the impact of any changes on the business sector (especially the SMEs) and the labour market[6].

Relation with other pillars

5.26 As a retirement savings system, the MPF is a long-term investment. The longer the duration of making contributions, the more pronounced is the compounding effect, leading to larger amount of accrued savings upon retirement. The MPF System was introduced in 2000, and the amount of accrued benefits accumulated by the employees under the System over a contribution period of 15 years at most is limited. It may take 40 years for the System to develop and mature, more or less equal to the whole contribution period of an employee assuming he has a full working life.

5.27 Occupation-based retirement protection schemes like the MPF System and Occupational Retirement Schemes constitute the core pillar of the whole retirement protection system. The MPF and Occupational Retirement Schemes provide retirement benefits to about 2.8 million and some 390 000 employees or self-employed persons respectively. The stronger this pillar becomes, the less reliant our working population will be on the publicly-funded social security pillar (i.e. the zero pillar) after their retirement. This will ensure the long-term sustainability of the System in light of the ageing population and the need to maintain our low-tax environment. The CoP, therefore, considers that this pillar should be strengthened to better perform its retirement protection function. On this premise, some members have serious reservations about using part of MPF contributions as the income source for other options.

Short to medium-term strategies

5.28 The CoP considers that the long-term goal should be strengthening the MPF pillar. In this connection, the CoP agrees with the Government and the MPFA in adopting the following strategies:

(a) To tackle the issues of "high fees" and "difficulty in making fund choices", a bill was introduced into the Legislative Council in November 2015, with a view to implementing the Default Investment Strategy (DIS) within 2016. The DIS will ensure that all MPF scheme members have access to a highly standardised and fee-controlled investment strategy consistent with the overall objective of retirement savings. The bill will also control and keep the management fees of the DIS as a percentage of the net asset value under management at 0.75% or lower per annum. Apart from bringing direct benefit to the employees, these measures will have benchmarking effect to drive down the management fees of all MPF constituent funds.

6 Though one of the members, Hon Michael Tien, agrees that the community should commence discussion on the "offsetting" issue, he does not think that this consultation is the right platform for doing so. As the consultation will deal with the core issue of the "regardless of rich or poor" and "those with financial needs" principles, opening up discussion on the "offsetting"arrangement concurrently will complicate the exercise. Besides, changing the "offsetting" arrangement will impact on the business environment, the working class, etc, and does not fall squarely within the purview of retirement protection or poverty alleviation. The Hon Tien considers that Government should, as soon as possible, deal with this important issue through a separate mechanism.

(b) Many employees are uninterested in MPF information and account management. The CoP thinks that the Government and the MPFA should step up publicity efforts to broaden the employees' understanding and acceptance of the system, including the importance of active management of one's own account. This will be conducive to the long-term development of the MPF System.

(c) In June 2015, the MPFA commissioned a consultancy study on the feasibility of the standardisation, streamlining and automation of MPF scheme administration. The consultant is expected to submit a report in December 2015. The Government and the MPFA will, based on the study results, pursue the setting up of a centralised electronic platform eMPF. The conceptual model comprises the establishment of a one-stop electronic portal that will facilitate scheme members' access to relevant information, allow employers to automatically calculate the amount of contributions and submit contribution data through the computer system, and collect contributions by centralised electronic means. This platform will further increase competition and reduce fund fees. But as explained in paragraph 5.23 above, the "offsetting" arrangement may hinder our efforts in bringing more competition to the MPF market. Therefore, before the issues relating to the "offsetting" arrangement are properly addressed, there is limited room for fee reduction.

(d) Implementing "full portability" in the long run will give scheme members full control over their MPF benefits (including their own contributions and those of their employers). This will facilitate further reduction of fees by market forces.

5.29 The CoP also agrees to the following two measures:

(a) properly address the "offsetting" issue – The community should make good use of the opportunity offered by this consultation to conduct thorough and in-depth discussion on the impact of the feasible options for addressing the "offsetting" issue on employers and employees, as well as the role of the Government. The community should endeavour to find an option acceptable to both employers and employees. In addition, we should consider ways to rationalise the relationship between severance payment/long service payment and the MPF System, and discuss mitigation measures which can reduce the impact of any changes on the business sector (especially the SMEs) and the labour market.

(b) explore the feasibility of raising the contribution rate at an opportune time – Now may not be the right time for raising the contribution rate. However, upon the full implementation of the DIS, which will help boost the confidence of MPF scheme members in the system, the feasibility of raising the contribution rate should be examined.

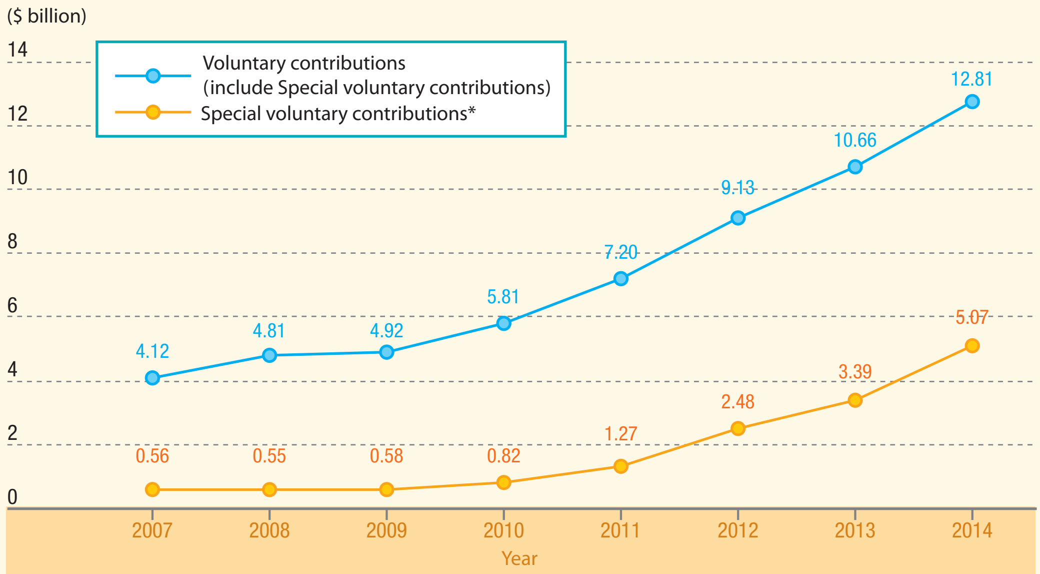
Voluntary savings of the third pillar

5.30 The third pillar has a rather narrow definition as it covers only the voluntary contributions or savings to occupational or private retirement schemes. In Hong Kong, MPF voluntary contributions, investments in retirement savings-related insurance or other financial products are all covered by the third pillar.

MPF voluntary contributions

5.31 Apart from making mandatory contributions linked to earnings, employers, employees or self-employed persons may opt to make extra contributions to the MPF accounts. The voluntary contributions made by employers form part of the remuneration packages for employees, and are conducive to retaining staff. For the employees, they can save more by making voluntary contributions if they find the MPF portfolios they chose a quality investment. Although there are views in the community about the returns and fees of MPF constituent funds, the CoP has noticed the substantial rise in MPF voluntary contributions in recent years from $4.1 billion in 2007 (13% of the total contributions in the same year) to $12.8 billion in 2014 (21% of the total contributions in the same year), representing a 200% increase (see Diagram 5.5). As such, the MPF's voluntary contribution arrangement has provided an additional option for making voluntary savings. This will help strengthen the retirement protection function of the third pillar.

Diagram 5.5 Substantial rise in MPF voluntary contributions



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

Source: MPFA

Savings-related insurance products

5.32 For the year of assessment 2013-14, about 54% of the working population are not required to pay salaries tax. For the remaining 46% who need to pay the tax, the average effective tax rate is only 8%. As there is neither capital gains tax nor estate duty in Hong Kong, our tax environment is favourable for voluntary savings and investments. Moreover, Hong Kong has a well-developed financial market. Apart from making voluntary contribution to MPF schemes, people can choose to invest in stocks, unit trusts, bonds or foreign exchange as they prepare for their retirement income. There are also a number of wealth management products on the market that are specifically designed for retirement savings, such as endowment policy. Although we do not have any statistics on the value of policies taken out for the purpose of retirement support, it is not uncommon for Hong Kong people to take out life insurance. There are more than 11 million life insurance policies in force in Hong Kong and the total insurance cover is worth more than $4,723 billion, with the long-term business insurance density[7] at $40,832 and an insurance penetration rate[8] of 13.1%.

5.33 According to the Thematic Household Survey on Retirement Planning and the Financial Situation in Old Age conducted by the Census and Statistics Department in 2012, about 50% of the future generation of retired persons had savings or investment to meet their financial needs after retirement. This and other indirect evidence show that private savings play a key part in supporting the retirement life of those retirees from the middle class or above. In particular, for those people who will retire in the coming 10 years, some of them have accumulated their wealth by capitalising on Hong Kong's economic take-off and appreciation of asset values in the earlier years. As a result, the private savings of many "baby-boomer" retirees are higher than the previous generations.

5.34 The CoP is of the view that the Government can further encourage voluntary savings through various means. First, the Government can strengthen its publicity and promotion efforts to enhance public understanding of different kinds of insurance and financial products that will help people plan their retirement life or manage their wealth. Second, the Government can create a favourable policy environment that will encourage the market to develop more financial products suitable for retirement investment and wealth management (e.g. issuing more retail bonds with longer term to maturity, and encouraging the private market to develop more financial products that comprise the element of long-term or life annuity plans). This will help people convert their savings into a continuous and steady stream of income after retirement, thereby facilitating an effective management of the longevity risk. Third, the Government can provide tax concessions to incentivise people to increase voluntary retirement savings for themselves and their family members. Possible measures include providing tax concessions for voluntary contributions under MPF schemes, or voluntary MPF contributions by employed persons for their non-working spouses.

7 Insurance density refers to the insurance premiums per capita.
8 Insurance penetration rate refers to insurance premiums as a percentage to the Gross Domestic Product.

Chapter 6
Comparison of Simulated "Regardless of Rich or Poor" and "Those with Financial Needs" Options

6.1 This chapter deals with the core issue of this consultation, i.e. whether the principle of "regardless of rich or poor" or "those with financial needs" should be adopted to enhance the existing retirement protection system. To facilitate the public to understand and discuss this issue, the CoP will use a simulated option each from the "regardless of rich or poor" category and "those with financial needs" category for comparison and analysis. Besides, as the CoP cannot reach broad consensus on the core issue, this chapter will present the different views of CoP members to help the community better understand the differences between the two principles.

Simulated "regardless of rich or poor" option

6.2 The Report examines six proposals on improving retirement protection from stakeholders. Three of them are "regardless of rich or poor" proposals, two are "those with financial needs" proposals and the remaining one is a public annuity scheme. In the end, the Report recommends the "Demo-grant" proposal, which by nature is "regardless of rich or poor".

6.3 The four "regardless of rich or poor" proposals, namely the "Demo-grant" proposal and the three proposals from The Hong Kong Federation of Trade Unions (FTU), Alliance for Universal Pension (AUP) and The Professional Commons respectively, share striking similarities in terms of the disbursement criteria for the retirement protection payment. All of them propose providing a non-means-tested uniform monthly payment for elderly people aged 65 or above, with the only difference on the level of payment (ranging from $3,230 to $3,770 per month) (2015 price).

6.4 As the "Demo-grant" proposal is recommended by the Research Team after studying all stakeholders' proposals, the CoP agrees that the simulated "regardless of rich or poor" option should be modelled on the payment level and disbursement criteria (including its interface with other social security schemes) proposed in the "Demo-grant" proposal.

6.5 Under the simulated "regardless of rich or poor" option, a monthly payment of $3,230 (based on the $3,000 as of 2013 price proposed by the Research Team and adjusted to 2015 price) will be paid to all elderly people aged 65 or above. In terms of interface with other social security schemes, the simulated option will follow the same arrangements proposed in the "Demo-grant" proposal, i.e. the payment from the simulated "regardless of rich or poor" option received by CSSA elderly recipients will be regarded as income. In other words, though receiving a monthly payment of $3,230 under the simulated option (2015 price), the overall financial support available to CSSA elderly recipients will be the same as that under the existing system. Elderly recipients with specific needs can continue to receive special grants to cover rent, dental and medical treatment expenses under CSSA. OALA and OAA, however, will be replaced by the simulated "regardless of rich or poor" option. As DA is to meet special needs arising from disability and its intended function is different from retirement protection, eligible elderly people can receive both at the same time.

6.6 The "Demo-grant" proposal and the three “regardless of rich or poor” proposals covered in the Report have suggested their own financing arrangements. All of them involve tripartite contributions from the Government, employees and employers[1]. While endorsing the principle of sharing out the increased expenditure through additional contributions from parties concerned, the CoP considers that the community should discuss in this public consultation whether the increased expenditure under the “regardless of rich or poor” and “those with financial needs” principles is sustainable and affordable. Specific financing arrangements should not be the focus of this consultation. Retirement protection is only one of the many public expenditure items. When considering whether to raise tax rates or introduce new taxes as proposed by stakeholders, the Government must take into account the estimated spending needs in other policy areas, including whether there is a need to raise tax to address the structural deficit which will probably surface in about 10 years or so. The Government would then be in a position to comprehensively assess the impact of the tax hike on the community and economy, and consider the matter in a holistic manner.

6.7 Some CoP members noted that while some “regardless of rich or poor” proposals from stakeholders suggest partial financing by contributions from employers and employees, these proposals recommend distributing the retirement protection payment to those aged 65 or above residing in Hong Kong. In other words, those who had made “contributions” when they were young might not be able to receive the retirement protection payment (e.g. if they have emigrated to other places after retirement). This deviates from the general understanding of “contributions” (i.e. anyone who have made “contributions” has the right to receive the retirement protection payment). It is more in line with the concept of tax payment. This financing mode is expressed as a form of taxation in the name of “payroll old age tax” under the “Demo-grant” proposal. As such, this consultation document will replace the reference to “contributions” in these “regardless of rich or poor” proposals with “taxation”.

Simulated “those with financial needs” option

6.8 In the Report, the two “those with financial needs” proposals raised by the New People’s Party (NPP) and the Democratic Alliance for the Betterment and Progress of Hong Kong (DAB) are very similar. Both suggest enhancing the OALA by establishing a new tier of financial assistance to provide better support for the poor elderly. The additional expenditure incurred will be met by general revenue. The NPP suggests a monthly payment of $3,870 (2015 price) to the elderly people with assets no more than $100,000, while the DAB suggests a monthly payment of $3,660 (2015 price) to those elderly people with assets no more than $150,000[2]. Borrowing the concepts of the two proposals, the Government has put forth a simulated “those with financial needs” option for comparison and analysis against the simulated “regardless of rich or poor” option. Specifically, the option will provide a monthly payment which is higher than the current OALA payment of $2,390 to the elderly people with assets no more than $80,000 (single) or no more than $125,000 (couple) (which are approximately two times of the current CSSA asset limits of $43,500 (single) and $65,000 (couple)) and having made income declarations similar to that for OALA (i.e no more than $7,340 (single) and $11,830 (couple)). To facilitate comparison with the simulated “regardless of rich or poor” option, the Government proposes to adopt the same amount of payment, i.e. $3,230 per month (2015 price). It is estimated that about 60% of the current OALA recipients (about 250 000) can receive further financial assistance under this simulated “those with financial needs” option. It must be stressed that this simulated option is not a concrete policy proposal put forth by the Government. Rather, it is only an illustration to facilitate comparison with the simulated “regardless of rich or poor” option and to stimulate discussion.

1 On government contribution, the four “regardless of rich or poor” options have put forth very similar proposals with two main sources, namely the transfer of elderly social security expenditure (excluding DA, the Guangdong Scheme, and special grants and supplements for rent and other items under the CSSA Scheme), and injection of extra funds. Suggestions involving employees and employers, however, are relatively diverse, including reducing MPF contributions to free up resources for funding the new option, collecting additional taxes (such as “payroll old age tax”) from employees and employers, and levying additional profits tax on enterprises that have earned profits above a certain level.

2 Besides, the DAB suggests raising the asset limit for the OALA to $300,000 and lowering the age requirement for OAA from 70 to 65.

Comparing and analysing the two simulated options

6.9 To facilitate comparison between the two simulated options, the CoP adopts a common basis to analyse the two options' increased expenditure over that of the "baseline scenario" (i.e. without any enhancement proposals) for the coming 50 years. To provide the public with a better idea of the magnitude of the increased expenditure, the CoP has quantified their impact on public finances by assuming that the increased expenditure will be met by different types of taxes. Details of the data analyses are provided in Annex 4 to this consultation document. With reference to the key data analyses of the two options, the different views of CoP members as to whether to adopt the "regardless of rich or poor" or the "those with financial needs" principle to strengthen the existing retirement protection system are summarised in the ensuing paragraphs.

Concepts and objectives

6.10 Members who support the "regardless of rich or poor" principle generally consider that retirement protection is a basic right, not a welfare benefit. Thus no means test should be imposed. There are members pointing out that with non-means-tested benefits, elderly people can live with more dignity in their old age. They do not have to run down their assets to a very low level in order to pass the means test before receiving social welfare assistance. This principle can also assist elderly people to handle longevity risk effectively. It provides basic income protection, thus offering a stronger sense of security in old age. With reference to the payment amount suggested in the "Demo-grant" proposal and other "regardless of rich or poor" proposals by stakeholders, a monthly payment of $3,000 or so appears to be adequate to provide basic living protection, apart from healthcare and housing. Some members also pointed out that there is no lack of precedents of livelihood measures in which benefits are provided on a universal basis, for example the 12-year free education.

6.11 On the other hand, members supporting the "those with financial needs" principle object to offering uniform assistance to all elderly people without means test. They consider that the "those with financial needs" principle targets resources towards helping the needy elderly. It is consistent with the Government's policy belief of "putting in place a reasonable and sustainable social security and welfare system to help those who cannot provide for themselves"[3]. Some members point out that the "those with financial needs" principle represents Hong Kong's cherished core values of self-reliance and hard work.

6.12 There are opinions that the "regardless of rich or poor" principle deviates from the underlying concept of MPF of "one supporting one-self". Its nature is in essence PAYG or "one generation supporting another", meaning that contributions or taxes from employers and employees of the current generation would be used to pay for the pensions of the previous generation. When the current generation retires, it will be supported by the next generation[4]. Some members are concerned

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3 Please see paragraph 46 of the 2014 Policy Address.

4 Most of the "regardless of rich or poor" proposals from stakeholders seek to have some form of partially pre-funded arrangement by a one-off or phased injection from the Government and early collective savings (i.e. accumulating as many reserves as possible before the peak of population ageing for meeting future outlay). However, Hong Kong's population is ageing fast and the labour force is expected to shrink in a few years. The "regardless of rich or poor" proposals will need to operate on a PAYG basis very soon. Hence, these proposals are, in essence, PAYG in nature.

that such inter-generational retirement protection arrangements will increase the reliance of the future generation on the benefits payable under the "regardless of rich or poor" principle, thus reducing its saving incentive and changing the long-established belief of "one supporting one-self". This will have adverse impact on the future economic development, as well as the sustainability of both public finances and retirement protection.

Coverage

6.13 The "regardless of rich or poor" principle can bring immediate benefits to all elderly people. Its full coverage can take care of those low-income and non-working elderly who are not adequately protected by other pillars. The stable income can provide the elderly people with peace of mind, while the design of this kind of option is generally simple and easy to implement.

6.14 However, some members consider that given limited resources, we should assess the applicability of the "regardless of rich or poor" principle in the light of the elderly poverty situation. We should not seek to attain full coverage through one single scheme. As mentioned in paragraph 2.17 in Chapter 2, against the background of putting OALA in place since 2013, among the 245 000 poor elderly people who were not on CSSA, about 140 000 claimed that they did not have financial needs[5]. This shows that offering assistance to everyone in accordance with the "regardless of rich or poor" principle would lead to resources mismatch. If resources are to be provided to all elderly people (including those who do not have financial needs), the overall expenditure will rise substantially. Even a slight upward adjustment to the payment amount will involve considerable extra resources. As a result, such enhancement proposals are more likely to be shelved owing to financial consideration, and this on the contrary, will not be to the advantage of those elderly in need.

"Who foots the bill?"

6.15 As mentioned in paragraphs 2.5 to 2.10 in Chapter 2, due to population ageing, shrinking workforce and deceleration in economic growth, even if the Government maintains all services at the existing level, a structural deficit will probably surface in about 10 years or so. It is highly likely that we need to raise tax to tackle the deficit. Although both the "regardless of rich or poor" and the "those with financial needs" options will further increase the Government's fiscal pressure, their impact on public finances is significantly different.

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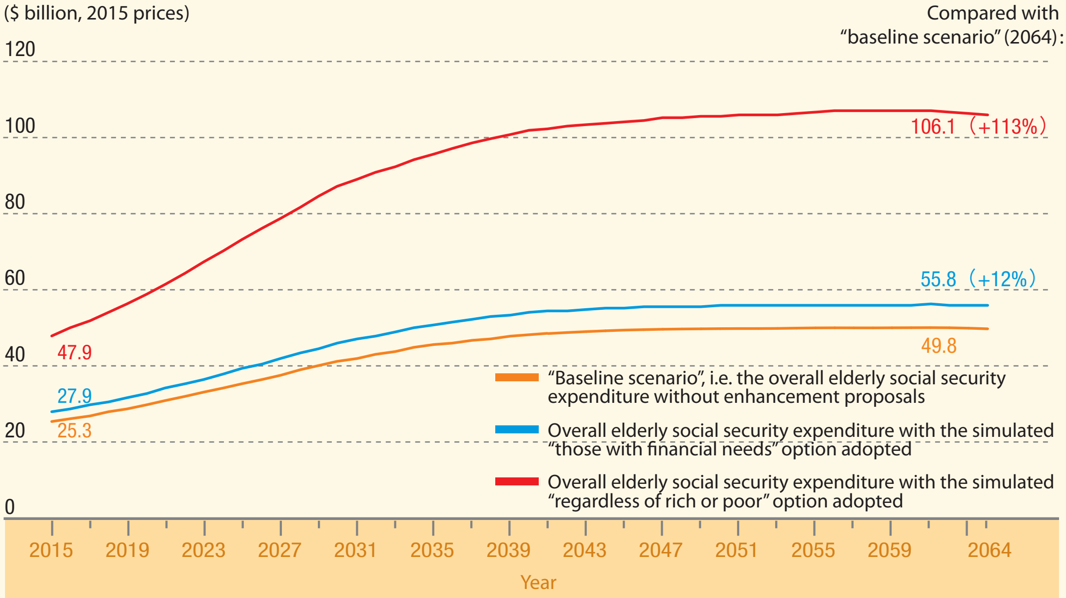
5 The data has been collected by the Census and Statistics Department's General Household Survey since 2010. When the monthly income of an interviewed household fell below a certain level, they would be asked "Why don't you apply for CSSA?" and would be given multiple answers to choose from. Some households chose to indicate that they did not have financial needs. Some said that they had financial needs but were ineligible, or were applying for CSSA. There were also some households who refused to answer. Over the past five years, about 60% of non-CSSA households consistently claimed that they did not have financial needs.

Diagram 6.1 Overall elderly social security expenditure under the "baseline scenario", the simulated "regardless of rich or poor" option and the simulated "those with financial needs" option



Notes: The projection has adopted the social security take-up rates for the elderly under the framework of the "Report of the Working Group on Long-Term Fiscal Planning".

The overall elderly social security expenditure under the "baseline scenario" includes the CSSA, DA, OALA and OAA for the elderly aged 65 or above. Under the simulated "regardless of rich or poor" option, the overall elderly social security expenditure equals to the overall expenditure of the "baseline scenario", plus the increased expenditure resulted from the simulated "regardless of rich or poor" option (i.e. deducting from the payment expenses the part of payment which is regarded as income under the CSSA system, the OALA and OAA). Under the simulated "those with financial needs" option, the overall elderly social security expenditure equals to the overall expenditure of the "baseline scenario", plus the increased expenditure resulted from the new tier of financial assistance under the OALA. All expenditure does not cover the Guangdong Scheme.

( ) The percentage increase as compared to the "baseline scenario".

Source: CoP Secretariat

6.16 Diagram 6.1 shows the overall elderly social security expenditure in the 50-year projection period under three different scenarios, namely the "baseline scenario" (orange line) that represents the existing overall elderly social security expenditure prior to any enhancement measures; the overall elderly social security expenditure with the simulated "those with financial needs" option adopted (blue line); and the overall elderly social security expenditure with the simulated "regardless of rich or poor" option adopted (red line). The gap between the red line and the orange line represents the increased expenditure (expressed at 2015 constant price) resulted from implementing the simulated "regardless of rich or poor" option. The increased expenditure will rise significantly from around $22.6 billion in 2015 to $56.3 billion in 2064, far exceeding the $2.5 billion (2015) and $6 billion (2064) (i.e. the gap between the blue line and the orange line) under the simulated "those with financial needs" option.

6.17 The total increased expenditure under the simulated "regardless of rich or poor" option for 50 years will amount to $2,395 billion (2015 constant price). This amount is almost ten times the $255.5 billion required by the simulated "those with financial needs" option. It will advance the structural deficit by six years to 2023-24 and the depletion of fiscal reserves by eight years to 2033-34 when compared to the projections by the Working Group on Long-Term Fiscal Planning in 2014. Under the simulated "those with financial needs" option, both situations will be advanced by one year.

6.18 In view of an ageing population, the Government anticipates that a structural deficit will strike in 10 years or so. Promoting economic growth, broadening the revenue base while containing government expenditure, and raising tax appear to be inevitable. According to the Report of the

Working Group on Long-Term Fiscal Planning in March 2014, the projected fiscal gap in 2041-42 may amount to 8.6% to 21.7% of nominal GDP (depending on the assumptions of expenditure growth). Increasing tax rate significantly will undermine Hong Kong's attractiveness as a place for business. In the long run, the net revenue gain through a doubling of the standard profits tax and salaries tax rates would still not be sufficient to fill the fiscal gap caused by structural deficit. Besides, the analysis on tax hike in connection with the increased expenditure of the simulated "regardless of rich or poor" and "those with financial needs" options below has yet to take into account the above-mentioned anticipated tax increase for tackling the ageing population.

6.19 If the new increased expenditure is to be met by tax revenue[6], during the 50-year projection period the Government will be required to:

(a) raise the profits tax rate by about additional 4.2 percentage points to 20.7% for the simulated "regardless of rich or poor" option. For the simulated "those with financial needs" option, the additional increase will be 0.4 percentage point; **or**

(b) raise the amount of salaries tax payable by about 55% for the simulated "regardless of rich or poor" option. In terms of the increase in tax rate, with the standard rate as an example, it will be an additional increase of 8.3 percentage points to 23.3%. As for the simulated "those with financial needs" option, the amount of salaries tax payable needs to be raised by 6% and the additional increase in standard tax rate will be 0.9 percentage point; **or**

(c) introduce goods and services tax and set the rate at around 4.5% for the simulated "regardless of rich or poor" option. For the simulated "those with financial needs" option, the rate will be 0.5%; **or**

(d) introduce the payroll old age tax as recommended in the Report and set the employer and employee tax rates in the range of 1.6% to 3.9% respectively for the simulated "regardless of rich or poor" option. For the simulated "those with financial needs" option, the tax rates will be 0.2% to 0.4%.

6.20 The tax increase relating to the two simulated options are tabulated in Diagram 6.2. It is worthy to note that the projections in Diagram 6.2 only provide an analytical framework based on the economic growth assumptions[7] under the existing tax regime, without taking into account the subsequent impact of increasing tax rates or introducing new taxes on the vitality and long-term competitiveness of Hong Kong's economy. From a practical point of view, raising tax rates (in particular a significant increase in tax rates) will alter the behaviours of the taxpaying individuals and enterprises. The original tax base will as a result shrink, and increasing tax rates may not necessarily lead to a proportionate increase in tax revenue. As such, the above projections are only meant for illustrating the additional resources that may be required of the community for financing the two simulated options. As mentioned, the above projected tax increase or level has not yet taken into account the possible tax hike required for tackling the structural deficit which is expected to surface in about 10 years or so. Besides, the projections in Diagram 6.2 are made on the assumption that the amount of monthly payment will be maintained at $3,230 (at constant price in 2015) for the coming 50 years. In other words, the amount will only be inflation-adjusted, without any increase in real terms. If the amount has to be adjusted at a rate higher than inflation in the future, the tax rates have to be revised upward correspondingly.

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6 Different types of tax will affect different groups of people. In the year of assessment 2013-14, for instance, 98 500 registered companies were required to pay profits tax (about 9% of the total number of registered companies), while 1.7 million working people were required to pay salaries tax (46% of the total working population). According to the "Demo-grant" proposal, all employers and employees will be required to pay the payroll old age tax (excluding employees with monthly income below $7,100). The goods and services tax is assumed to cover food items, clothing and daily necessities, as well as healthcare, transportation, education, etc services, and therefore will affect the largest number of persons (including those from the low-income group who are not required to pay salaries tax).

7 For the economic growth assumptions for 2015-2064, please see paragraph 2.5 in Chapter 2.

Diagram 6.2 Key data analyses of the simulated "regardless of rich or poor" option and the simulated "those with financial needs" option (2015 prices)

	Comparative indicators		Simulated "regardless of rich or poor" option – $3,230 (maintained at 2015 constant price for the coming 50 years)		Simulated "those with financial needs" option – $3,230 (maintained at 2015 constant price for the coming 50 years)	
I	As compared to the elderly social security expenditure of the "baseline scenario":					
	(i) Overall increased expenditure*		From 2015 to 2064 **$2,395.0 billion**		From 2015 to 2064 **$255.5 billion**	
	(ii) Annual average increased expenditure*		**$47.9 billion**		**$5.1 billion**	
II	If the Government has to meet all the increased expenditure* with the existing tax regime or tax rates remaining unchanged:					
	(i) Advancing the timing for the Government to have structural deficit		**6 years (2023 – 24)**		**1 year (2028 – 29)**	
	(ii)Advancing the timing for the Government to fully deplete its reserves		**8 years (2033 – 34)**		**1 year (2040 – 41)**	
III	If the increased expenditure* is to be met by tax revenue:					
	Option 1: Raising the rate of profits tax		2015 2.8 percentage points	2064 4.6 percentage points	2015 0.3 percentage point	2064 0.5 percentage point
			Average increase for 2015 – 2064: **4.2 percentage points**		Average increase for 2015 – 2064: **0.4 percentage point**	
	Option 2: Raising the rate of salaries tax: Increase in standard rate#		2015 4.9 percentage points	2064 9.1 percentage points	2015 0.6 percentage point	2064 1.0 percentage point
			Average increase for 2015 – 2064: **8.3 percentage points**		Average increase for 2015 – 2064: **0.9 percentage point**	
	Option 3: Introducing goods and services tax (tax rate)		2015 2.8%	2064 5.0%	2015 0.3%	2064 0.5%
			Average rate for 2015 – 2064: **4.5%**		Average rate for 2015 – 2064: **0.5%**	
	Option 4: Introducing payroll old age tax (<u>respective tax rates</u> for employers and employees)**	Monthly income	2015	2064	2015	2064
		below $11,000##:	0.7%	2.0%	0.1%	0.2%
		$11,000 or above – below $22,000:	1.0%	3.1%	0.1%	0.3%
		$22,000 or above^:	1.6%	5.1%	0.2%	0.5%
		Monthly income	Average rate for 2015 – 2064:		Average rate for 2015 – 2064:	
		below $11,000##:	**1.6%**		**0.2%**	
		$11,000 or above – below $22,000:	**2.4%**		**0.3%**	
		$22,000 or above^:	**3.9%**		**0.4%**	

Notes:
(*) The increased expenditure under the simulated "regardless of rich or poor" option equals to deducting from the payment expenses the part of the payment which is regarded as income under the CSSA system, the OALA and OAA. The increased expenditure under the simulated "those with financial needs" option is the extra expenditure for providing a new tier of financial assistance under the OALA. With reference to the assumption in the Report that an investment return of 2% in real terms (i.e. after discounting inflation) can be earned by the funding balance for the retirement protection scheme, and assuming a similar discount rate, the total present value of the increased expenditure required by the simulated "regardless of rich or poor" option and the simulated "those with financial needs" options for the period 2015 – 2064 will be $1,442.0 billion and $154.0 billion respectively after taking into account the discount rate.

(#) The increased expenditure is assumed to be shared by all taxpayers (i.e. taxpayers who pay their taxes at progressive rate and standard rate) on a pro rata basis. However, as the progressive rate ranges from 2% to 17% while the standard rate is 15%, only the increase in standard rate is included here for simplicity.

(**) The payroll old age tax is a new tax proposed to be introduced as part of the income source for funding the "Demo-grant" proposal. The income bands are as suggested under the "Demo-grant" proposal with inflation adjustment to the level of 2015 price.

(##) Only the employer will pay the tax if the monthly income of the employee is below $7,100.

(^) The cap is at $129,000 (i.e. the limit of $120,000 proposed in the Report expressed at 2015 price level). In other words, based on the average tax rate between 2015 and 2064, the maximum tax to be paid by employer and the employee under the simulated "regardless of rich or poor" option will be $5,030 per month respectively, while the maximum tax payment under the simulated "those with financial needs" option will be $520 per month respectively.

Source: CoP Secretariat

Cost effectiveness in alleviating poverty

6.21 The simulated "regardless of rich or poor" option involves substantial resources, of which a very large share, however, will be used to support those elderly who are receiving the non-means-tested OAA and the better-off elderly those who are not receiving any cash allowance. Diagram 6.3 attempts to compare the additional payment to be received by different groups of elderly people under the two simulated options. Those who benefit most from the simulated "regardless of rich or poor" option are mainly those who are receiving the OAA or who have not been receiving any cash allowance. They represent 46% of the total elderly population. Each of them can receive an additional payment of about $2,000 to more than $3,000 per month. Of the increased expenditure of $2,395 billion for the simulated "regardless of rich or poor" option during the 50-year projection period, only 18% can benefit those elderly people receiving OALA. Most of the remaining 82% are given to those elderly receiving OAA and those who have not received any cash allowance. For the simulated "those with financial needs" option, the main beneficiaries are those OALA recipients who can pass the proposed means test. This shows that the simulated "those with financial needs" option is targeted, and its cost-effectiveness in alleviating poverty is much higher than the simulated "regardless of rich or poor" option.

Diagram 6.3 Comparison of additional payment to be received by different groups of elderly people under the simulated "regardless of rich or poor" and "those with financial needs" options

Groups of elderly people (classified by social security benefits)	Proportion in the elderly population aged 65 or above as at June 2015 (number)	Current payment received by each recipient per month* ($)	After adopting the simulated "regardless of rich or poor" option			After adopting the simulated "those with financial needs" option		
			Payment received by each recipient per month ($)	Additional payment received by each recipient per month ($)	Increased expenditure (share in overall increased expenditure) ($ billion)	Payment received by each recipient per month ($)	Additional payment received by each recipient per month ($)	Increased expenditure (share in overall increased expenditure) ($ billion)
CSSA[#]	13% (147 428)	5,548	5,548[^]	0[^]	0	5,548	0	0
OALA	37% (420 227)	2,390	3,230	840	426.4 (18%)	3,230[~]	840[~]	255.5 (100%)
OAA	19% (216 205)	1,235	3,230	1,995	587.4 (25%)	1,235	0	0
Higher DA	1% (14 079)	3,160	6,390[@]	3,230[@]	60.1 (3%)	3,160	0	0
Normal DA	2% (19 472)	1,580	4,810[@]	3,230[@]	76.1 (3%)	1,580	0	0
Not receiving any social security benefits	27% (305 889)	0	3,230	3,230	1,245.1 (52%)	0	0	0
Increased expenditure[&]	—	—	—	—	2,395.0 (100%)	—	—	255.5 (100%)

Notes:
(*) The monthly payment of $3,230 under the two simulated options is at 2015 price level. For comparison, payments of all other social security benefits are also expressed at the same price level. The relevant payment level is adjusted in accordance with the prescribed mechanism on 1 February every year.
(#) Represented by the average monthly CSSA payment for elderly singletons (aged 60 or above).
(^) Elderly CSSA recipients under the simulated "regardless of rich or poor" option can receive a payment of $3,230 (at 2015 price) per month, as well as rent and other allowances under the CSSA. As the payment under the simulated option will be regarded as income of the elderly recipients under CSSA, receiving the payment of $3,230 will not change the overall financial support they have under the existing system.
(~) Only applicable to those OALA recipients who can pass the means test of the simulated option.
(@) Elderly people receiving the DA can also receive the payment under the simulated "regardless of rich or poor" option.
(&) Numbers do not add up to total due to rounding.

Source : CoP Secretariat

Sustainability of the schemes

6.22 Owing to an ageing population and a shrinking labour force, universal retirement protection schemes operating on a PAYG basis and relying on inter-generational support will face a huge challenge. Taking the simulated "regardless of rich or poor" option as an example, the number of elderly people eligible for the "regardless of rich or poor" payment will increase by 130% from 1.12 million in 2015 to 2.58 million in 2064. As a result, the total "regardless of rich or poor" payments to be made will increase substantially from $43.5 billion in 2015 to $100.1 billion in 2064 (at constant price in 2015). On the other hand, unless there are major changes in the current population policy or future trends of fertility, the working population who are paying the tax for meeting the payment of the simulated "regardless of rich or poor" option will drop from 3.63 million in 2015 to 3.11 million in 2064, representing a decrease of about 14% and a continued shrinkage of the tax base. In fact, the financial projections of the "Demo-grant" proposal and the three "regardless of rich or poor" proposals in the Report have also confirmed this point. All four proposals will run into deficit within 15 years after implementation. Only one proposal would have a positive balance at the end of the projection period (i.e. 2041). The other three would have their retirement fund fully depleted in the 14th to 29th year after implementation.

6.23 Based on the suggested funding model of the "Demo-grant" proposal and the original projection framework in the Report, we have updated the financial projection with the latest population and labour force projections. The updated projection shows that the proposal will start to incur a deficit in the 10th year and the balance will turn negative in the 25th year after implementation. By 2064, the negative balance will grow to $541 billion. The timing of the first structural deficit and a negative fund balance will be advanced by three and four years respectively as compared to the original projection as mentioned in the Report[9]. Unless there is a substantial increase in the proposed tax or a cut in "Demo-grant" payment, the proposal will inevitably run into a persistant deficit. The situation will be even more acute under the latest population projections.

6.24 Moreover, it is worth noting that the above projections only reflect whether the proposed way of funding is sufficient to support the proposed retirement protection payment. In theory, by injecting more funding, we can prevent the retirement protection fund from going into deficit. However, this has not taken into account the public services and spending needs of other policy areas, as well as the overall affordability of the community.

Government's position

6.25 Since the release of the Report in August 2014, the Government has expressed reservations about the "regardless of rich or poor" principle on various occasions, including the Policy Address and Budget delivered in early 2015. This remains the Government's position.

6.26 The Government's main concern lies in four areas. First, under the prevailing tax regime and tax rates along with the scenario of having no service enhancement, the increased expenditure arising from the "regardless of rich or poor" options will undermine the long-term sustainability of public finances. This will not only reduce the financial capacity of the Government in handling other retirement protection initiatives (e.g. healthcare, long-term care and community care services), but will also inevitably compress the expenditure on other policy areas. Second, Hong Kong is entering an era of rapid population ageing. Any "regardless of rich or poor" options will, sooner or later, run into a deficit

9 According to the original projections in the Report, it can be interred that the "Demo-grant" proposal will record a negative balance in 2042.

and will not be financially sustainable. Should there be no alternatives by that time but to continue to support the scheme, the burden of taxation to be borne by the younger generations will be much heavier in the future. Third, implementing the "regardless of rich or poor" options will need to raise tax substantially or even introduce new tax. This will deviate from Hong Kong's long-established low tax regime. It will not only weaken our ability in attracting foreign investments, but also undermine the long-term economic development of Hong Kong. This, ultimately, will affect the competitiveness of Hong Kong. Fourth, the allocation of resources under the "regardless of rich or poor" principle is not targeted, rendering resources not being able to be deployed in the most effective manner to help the elderly in need.

6.27 It is worthy to mention that according to Article 107 of the Basic Law, the Hong Kong Special Administrative Region must follow the principle of keeping the expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product.

6.28 The Government, however, acknowledges that there is room for improvement within the existing system and does not wish to see our retirement protection efforts coming to a standtill. Given that the collective retirement protection functions of the four pillars will be strengthened as the system becomes more mature, and enhancing the existing pillars will allow the four groups of people mentioned in paragraph 3.10 in Chapter 3 to have better retirement protection, the Government recommends that the community should focus our discussion on how to consolidate the existing system, improve and strengthen each pillar, and make good use of the $50 billion set aside by the Government with a view to providing better assistance to the elderly in need.

6.29 Based on above analysis, adopting the simulated "regardless of rich or poor" option will entail much more resources from the community than the simulated "those with financial needs" option. There will be a need for a substantial tax increase. Even if the higher income groups or more profitable enterprises bear a larger share of the burden, members of the general public and the business environment of Hong Kong may still be affected in the end. Such implications must not be taken lightly. For the simulated "those with financial needs" option, careful consideration should also be given to the increased recurrent expenditure to be borne by the Government in the long run, and its implications on the sustainability of public finances.

Updating the financial projections of stakeholders' proposals in the Report

6.30 To facilitate comparison, we have updated the financial projections of the five proposals from stakeholders in the Report[9] and the "Demo-grant" proposal based on the original projection framework in the Report, and the latest population and labour force projections. The updated projection results and related technical details are at Annex 5. According to the updated projections, the financial situation of the "Demo-grant" proposal and the three "regardless of rich or poor" proposals will be even worse, as compared to that analysed in the Report. The proposals will run into deficit or record a negative balance earlier than the projections reported in the Report. This indicates that the "regardless of rich or poor" proposals are even less sustainable under the latest population structure (see Diagram 6.4). The CoP took note of another "regardless of rich or poor" proposal put forth by a group of scholars in November this year. The proposal is very similar to that from AUP. After adjusting the payment level and significautly

9 Apart from those five proposals, the Report also includes a public annuity scheme proposed by Dr Law Chi-kwong. However, as the scheme involves a large amount of hypothetical assumptions, the Research Team has not conducted projections for this proposal.

increasing Government's funding injection, the proposal has a net positive balance at the end of the projection period[10]. As regards the two "those with financial needs" proposals, the increased expenditure under the proposal from the DAB will rise from $9.6 billion in 2015 to $20.9 billion by 2064[11], while the corresponding figures of the NPP's proposal are $4.9 billion and $12.7 billion respectively.

Diagram 6.4 Updated financial projections of three "regardless of rich or poor" proposals from stakeholders and the "Demo-grant" proposal

	Updated financial projection in 2015* (2015 price)			
	Timing of starting to have deficit after the implementation of the proposal #	Timing of starting to record negative balance after the implementation of the proposal #	Fund balance in 2041 ~ ($ billion)	Fund balance in 2064 ($ billion)
FTU	1 year (unchanged)	13 years (1)	-267.0 <-248.5>	-1,271.9
AUP	12 years (3)	29 years (–)@	37.6 <127>	-505.8
PC	6 years (1)	18 years (1)	-141.0 <-116.7>	-989.6
"Demo-grant"	10 years (3)	25 years (4)	-27.5 <13.5>	-541.0

Notes: (*) The updated financial projection is made on the following basis: (i) the latest population and labour force projections; (ii) the payment and income limits being adjusted to the price level of 2015; (iii) the ways of financing as proposed in each proposal; and (iv) all other assumptions, including assumptions on the elderly social security take-up rates being the same as that used in the projection framework in the Report.

(#) Figures in ( ) denote the number of years advanced when compared with the original projections in the Report.

(@) Comparison is not possible as the projections of the Report end in 2041.

(~) Figures in < > denote the original projections in the Report which are based on 2013 price.

Source: CoP Secretariat

Public annuity scheme

6.31 One of the proposals mentioned in the Report is the public annuity scheme proposed by Dr Law Chi-kwong. Under the proposed scheme, retirees and those who are going to retire may invest their capital (such as MPF accrued benefits and private savings, etc.) in an annuity scheme operated by the Government or a statutory body, in exchange for a stable monthly income for the rest of their life (see Annex 6). The CoP generally supports the concept of annuity. In particular, the MPF accrued benefits will increase with time and Hong Kong people are living longer. Thus, the community should have an early discussion on how to help retirees turn their MPF accrued benefits or private savings in the form of a lump sum into regular income for a long period of time or even for the rest of their life through annuity schemes or other financial instruments. This can properly manage the longevity risk such that elderly people will no longer have to worry about outliving their savings, or overly reduce their daily expenses to such an extent that will affect the quality of their retirement life and their spending pattern.

10 The proposal from scholars is very similar to that of the AUP. The differences are that the scholars' proposal proposes a lower retirement protection payment (scholars' proposal: $3,500; AUP's proposal: $3,690) and more fund injection from the Government (scholars' proposal: $100 billion; AUP's proposal: $53.8 billion). According to the scholars' projection, their proposals will start to have deficit by 2033 (i.e. the 17th year after implementation) and will have a net positive balance of $54.8 billion at the end of the projection period (i.e. 2064).

11 The increased expenditure of the DAB's proposal can be divided into three parts: adding one more tier of assistance (2015: $5.9 billion; 2064: $15 billion); relaxing the asset limit of OALA to $300,000 (2015: $1.8 billion; 2064: $3.3 billion); and lowering the age criteria of receiving OAA from 70 to 65 (2015: $1.9 billion; 2064: $2.6 billion).

6.32 With reference to overseas experiences, public annuity schemes are rare around the world. CPF Life of Singapore seems to be the only example. Annuity schemes run in other places such as the United States, the United Kingdom, Australia and Chile are privately managed. The CoP has noted that the local annuity market has yet to develop. Although individual insurance companies offer annuity schemes, most of them are fixed-term annuities for a period of 5 to 20 years and no life annuity is available in the market. Some opine that this is due to the lack of financial instruments in the local financial market to hedge against the longevity and long-term inflation risks. The CoP has also noted that the markets offering well-developed privately-managed annuity schemes in places like Chile are mostly characterised by the statutory requirement to annuitise their pensions. Introducing mandatory annuitisation requires public acceptance. Voluntary annuitisation, on the other hand, may result in adverse selection. This means that only those who expect to live a long life will join annuity schemes and this will increase the risks for annuity providers. Another consideration is whether there should be guaranteed returns for annuities (e.g. inflation-linked). Providers offering annuity plans with guaranteed returns will have to bear a higher risk, and they may shift some of the risks to consumers through the annuity prices. On the other hand, annuity plans without guaranteed returns may not be able to provide adequate protection for the elderly.

6.33 The CoP considers that the community should further explore the feasibility of a public annuity plan. Issues to be examined include the roles of the Government and the private market, the Government's financial commitments involved in the annuity scheme, whether annuitisation should be mandatory or voluntary, whether there should be guaranteed returns for annuities, the role of annuity schemes in the whole retirement protection system and its relationship with other pillars.

Chapter 7
Express Your Views

7.1 Retirement protection forms a core part of our preparation for an ageing society. There is much to do and we need to move faster. The CoP is of the view that the community should weigh all considerations and make the right choices in enhancing retirement protection in a pragmatic and sustainable manner. On the other hand, we should avoid passing unbearable burden to future generations. In charting our way forward, views of the public are very important to us. The CoP hopes that you will express your views in particular on the issues listed below.

7.2 While the issues below are grouped by pillars, the CoP would like to point out that the pillars interact with one another. For example, if one pillar is strengthened, the need to enhance other pillars may be reduced. Where public funding is involved, it is unlikely that all enhancement measures can be introduced at the same time, and full implementation may not always be possible. Therefore, the discussion should also cover the implementation priorities.

"Regardless of rich or poor" or "those with financial needs" principle

(a) With limited resources, addressing elderly poverty is one of the primary objectives of enhancing retirement protection. To effectively improve the poverty situation of the elderly and ensure the sustainability of the system, should we adopt the "regardless of rich or poor" principle to provide a uniform payment for all elderly people irrespective of their financial status? Or should we continue to use the "those with financial needs" principle targeting resources towards increased assistance for the elderly in need, with a view to providing them with adequate protection? What are the justifications? The substantial expenditure required by the "regardless of rich or poor" option will render tax hikes or new taxes inevitable. Are you willing to pay the additional taxes?

Groups deserving attention

(b) The CoP has identified four groups which deserve further attention, namely:

(i) the poor elderly people who are receiving assistance such as the OALA and still claim to have financial needs;

(ii) the low-income persons especially those who need not make MPF employee contributions because of their low income and those who are affected by the "offsetting" arrangement;

(iii) the non-working population; and

(iv) the elderly people who are "asset-rich, income-poor".

Do you think there are other groups which need our further attention?

Enhancing existing pillars

The zero pillar — social security

(c) At present, 73% of the elderly population are beneficiaries of various social security schemes, including the CSSA, OALA, DA and OAA. To strengthen the poverty alleviation function of the zero pillar, should we provide an additional tier of financial assistance under the OALA for the needy elderly by adopting the "those with financial needs" option? How can we identify these needy elderly? At what level should the asset limit be set? What subsidy level will be regarded as adequate?

The second pillar — MPF

(d) The CoP agrees that the MPF pillar should be strengthened by introducing three key measures:

(i) Launching the DIS in 2016;

(ii) Putting in place a centralised electronic portal to facilitate the standardisation, streamlining and automation of the MPF scheme administration; and

(iii) Implementing "full portability" in the long run.

The CoP also thinks that the community should make good use of the opportunity offered by this consultation to conduct thorough and in-depth discussion on the impact of the feasible options for addressing the "offsetting" issue on employers and employees, as well as the role of the Government. The community should endeavour to find an option acceptable to both employers and employees. In addition, the community should consider ways to rationalise the relationship between severance payment/long service payment and the MPF, and discuss mitigation measures which can be adopted to reduce the impact of any changes on the business sector (especially SMEs) and the labour market. The CoP also proposes to further consider the feasibility of raising the contribution rate upon full implementation of the DIS.

Do you agree with these reform directions? In particular, do you have any specific proposals to properly address the "offsetting" issue?

The third pillar — voluntary savings

(e) The CoP considers that a three-pronged approach may be adopted to further encourage voluntary savings:

(i) Strengthening publicity and promotion efforts to enhance public understanding of different kinds of insurance and financial products that will help people plan their retirement life or manage their wealth;

(ii) Creating a favourable policy environment to encourage the market to develop more financial products for retirement investment and wealth management (such as annuity plans or retail bonds with longer term to maturity); and

(iii) Providing tax concessions to incentivise people to increase voluntary retirement savings for themselves and their families.

Do you agree that these proposals would be effective in encouraging voluntary savings? Do you have other ideas?

(f) The CoP considers that the community should further explore the viability of the public annuity scheme. Do you agree with this proposed direction?

The fourth pillar — public services

(g) An ageing population will lead to a drastic increase in demand for healthcare and elderly services. How should we ensure the sustainability of this pillar and plan the software and hardware facilities (including land, manpower and service delivery) for various services to meet future needs?

The fourth pillar — self-owned properties

(h) The CoP considers that innovative approaches should be identified to help the "asset-rich, income-poor" elderly increase their retirement income. As properties are valuable assets, the reverse mortgage market in Hong Kong has great potential for development. The CoP proposes improving the operational details of the Reverse Mortgage Programme and strengthening publicity to make it more appealing to the elderly. The CoP also proposes integrating the efforts of various sectors (such as social enterprises) to help elderly people let out the whole or part of their properties to supplement their retirement income with rental. Do you support these proposals?

The fourth pillar — family support

(i) The CoP sees the need to explore further how we can encourage and facilitate family support for the elderly through public policy measures. Do you have any specific proposals?

Public education

(j) The CoP considers it necessary to step up promotion and publicity with a view to increasing public understanding and acceptance of the MPF System, and enhancing public awareness of the importance of retirement planning and the advantages of early savings, including how to calculate one's financial needs after retirement and accumulate sufficient retirement income. Do you agree with these ideas? What specific proposals do you have?

7.3 Please send your comments on this consultation document to us on or before 21 June 2016. Your comments and proposals may be published and please specify so if you request anonymity in your submission.

Email: views@rp.gov.hk

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Fax: 3904 5996

Mailing Address: Labour and Welfare Bureau (Retirement Protection Public Engagement Exercise), 10/F, Central Government Offices (West Wing), 2 Tim Mei Avenue, Tamar, Hong Kong

Enquiries: 3142 2303

Commission on Poverty's Terms of Reference and Membership

Terms of reference

(1) Update the poverty line analysis on a yearly basis and refine its analytical framework as appropriate to review the poverty situation and the effectiveness of poverty alleviation measures in Hong Kong;

(2) Review existing policies and explore new measures and through the work of the Task Forces to achieve the objectives of preventing and alleviating poverty for facilitating the grass-roots (especially the younger generation) to move upwards along the social ladder, providing appropriate support to target groups with special needs, as well as plugging the gaps in the existing system and promoting social innovation to tackle poverty through the Community Care Fund and the Social Innovation and Entrepreneurship Development Fund;

(3) Explore options to enhance retirement protection to improve the situation of elderly poverty in light of the actual situation in Hong Kong with reference to the study report on retirement protection conducted by Professor Nelson Chow and his team;

(4) Keep track of the feasibility study on establishing a central benefits service in Hong Kong and advise on future directions having regard to the results of the feasibility study; and

(5) Promote cross-sector collaboration in poverty alleviation work and engage other government advisory committees on poverty alleviation work.

Membership

Chairperson

Chief Secretary for Administration

Non-official members

Ms Amy Chan Lim-chee
Ms May Chan Suk-mei
Dr Henry Cheng Kar-shun
Professor Stephen Cheung Yan-leung
Dr Stephen Frederick Fisher
Mr Ho Hei-wah
Mr Lau Ming-wai
Mr Leung Che-cheung
Ms Li Fung-ying
Ms Yvonne Sin
Ms Sylvia Chan May-kuen
Mr Clement Chen Cheng-jen
Mr Cheung Kwok-che
Mr Chua Hoi-wai
Mr Frederick Fung Kin-kee
Ms Lam Shuk-yee
Dr Law Chi-kwong
Mr Clarence Leung Wang-ching
Professor Francis Lui Ting-ming
Mr Michael Tien Puk-sun

Ex-officio members

Secretary for Labour and Welfare (or his representative)
Secretary for Education (or his representative)
Secretary for Food and Health (or his representative)
Secretary for Home Affairs (or his representative)

Overseas Experience

1. In recent years, many places have been making vigorous efforts to tackle the problems posed to their retirement protection system by an ageing population. Hong Kong can make reference to these experience, but, as mentioned in the Report, "A 'perfect' old age grant system was virtually non-existent, countries and regions were constantly exploring and enhancing existing old age protection systems in their varying circumstances" (page 4, Executive Summary of the Report). In view of this, Hong Kong cannot simply replicate a successful system or a reform package from elsewhere without looking at it in context. Instead, we may learn from their experience to avoid repeating the mistakes of implementing a problematic scheme. We may introduce new arrangements or strengthen existing schemes that have been proven to be more effective in order to enhance our existing system.

Reform trends in other places

2. According to a report by the Organisation for Economic Co-operation and Development (OECD), at present, the retirement protection systems of most OECD economies include a first-pillar mandatory contributory scheme. This type of retirement protection scheme was first implemented in Germany as early as 1889. These schemes are publicly-managed and mainly financed on a pay-as-you-go (PAYG) basis, i.e. collecting contributions from the working population of the current generation to pay for the pensions of the elderly. When a generation retires, their pensions will then be borne by the next generation. This process involves a transfer of resources across generations. An advantage of this system is that the elderly can benefit from the scheme immediately upon its implementation. Many places have followed the German model to set up or expand similar systems, especially when the economy resumed development and social conditions became more stable after the Second World War.

3. Between the 1970s and 1980s, however, demographic changes arising from longer life expectancies and low birth rates, coupled with external economic factors, posed challenges to the publicly-managed retirement protection system in many places, and especially to the sustainability of PAYG schemes. The International Monetary Fund pointed out in 2011 that the ratio of public pension expenditures to gross domestic product (GDP) in advanced economies increased from 3.8% in 1960 to 7.1% in 1980 and 8.4% in 2010. Given the trend of population ageing, the ratio of working population to retirees will fall over time. Eventually, the contributions will not be sufficient to pay the pensions of an increasing number of elderly people along with longer life expectancies. This situation is particularly acute in places with a rapidly ageing population.

4. As mentioned by OECD in "OECD Pensions Outlook 2014", in the context of an ageing population, and particularly as mortality rates and life expectancies continue to improve, a retirement protection scheme run on a PAYG basis will have to face the problem of financial sustainability. It is also mentioned in the Report that many countries which have implemented defined benefit pension systems financed on a PAYG basis with retirement benefits linked to the amount of pre-retirement income as well as the contribution period have inevitably run into deficits. This has left them with no alternative but to reform their systems.

5. As a retirement protection system directly affects the interests of current and future generations, it is politically impractical to remove a long-established system. This is why most places would retain the first pillar and implement enhancement measures, trying to striking a balance between the sustainability of a pension scheme and the adequacy in terms of the pension paid. Some places have decided to establish a new second pillar (i.e. a privately-managed mandatory pension scheme) to progressively replace the existing PAYG first pillar or complement the entire system. CoP has attempted to sum up the relevant overseas experience in order to provide some background information for considering how to further enhance the retirement protection system of Hong Kong.

Improving publicly-managed pension schemes

6. To improve the financial sustainability of publicly-managed pension schemes, major directions of reform include reducing pension expenditures or containing their growth through the following measures:

(1) Deferring the eligibility age for pension benefits

The retirement age in most OECD countries has already been deferred to 65 or even higher. With longer life expectancies, the trend of deferring the retirement age is expected to continue in the future.

(2) Revising the formulae for calculating pension entitlement

Reform measures include using a longer past income period in the calculation of pensions, taking life expectancies or dependency ratios as factors in adjusting the levels of pension, changing the formula for adjusting pension levels, or even freezing inflation-linked adjustments.

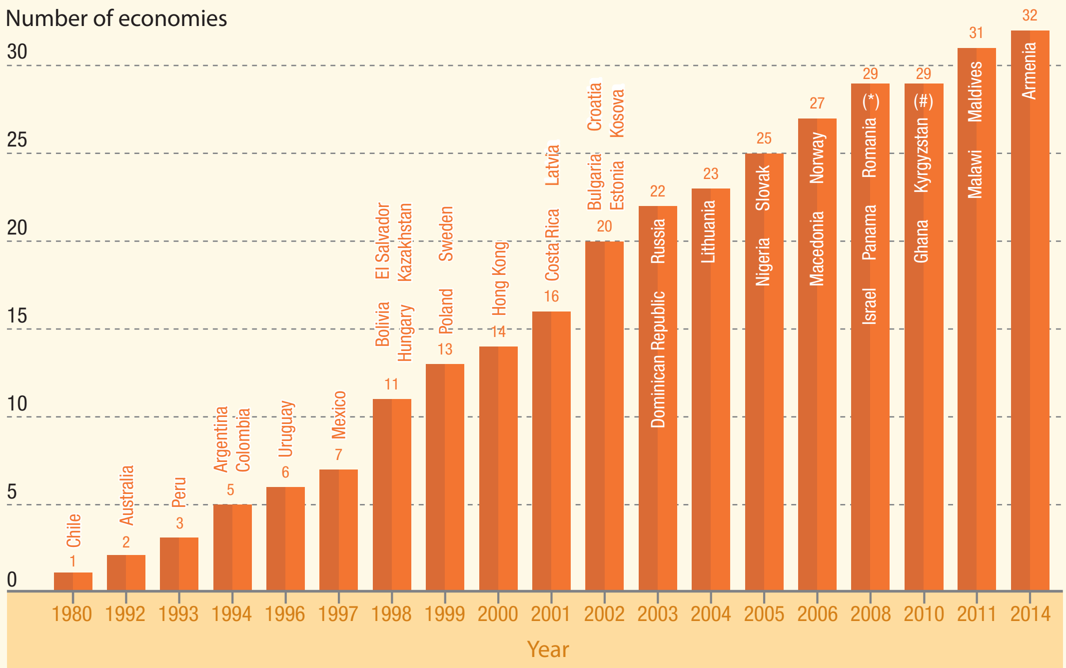
(3) Raising the contribution rate and encouraging delay in withdrawing pension

Reform measures include raising the contribution rate, tightening the eligibility criteria of early withdrawal of pensions, increasing the number of contribution years required for receiving full pension, and introducing or increasing the "reward" in pension accounts for deferring retirement.

(4) Implementing notional defined contribution accounts

Under this arrangement, the PAYG approach is still adopted for financing purposes, but the amount payable upon retirement is calculated based on the defined contribution model. In other words, each employee has a notional account to record his or her contributions and the rate of return as determined by the government. When he or she retires, his or her contributions and the notional returns in the account are converted to an annuity after taking into account the changes in life expectancy.

Diagram 1 More than 30 places have the mandatory second pillar



Note: (*) Argentina abolished the scheme in 2008.
(#) Bolivia and Hungary abolished the scheme in 2010.

Source: World Bank database and official websites of the selected economies concerned

Establishing privately-managed mandatory contributory systems

7. Some places (e.g. Chile) have introduced the second pillar, i.e. privately-managed mandatory occupational contributory pension plans, in order to progressively replace the existing first pillar. The experience of Chile in introducing the second pillar in 1980 has inspired many places to adopt such retirement schemes managed in the form of individual accounts and operated with the mode of defined contribution. As at 2014, a total of 32 places had established the mandatory second pillar. The second pillar serves as the backbone of the entire retirement protection system in some places (e.g. Chile and Australia), while in some others (e.g. Sweden and Norway), the first pillar was retained while the second pillar was introduced in order to complement the whole system (see Diagram 1).

8. While the second pillar has been introduced in more and more places, this kind of system has met with some challenges in recent years, particularly the investment risks after the global financial turmoil in 2007 and 2008 as well as fee problem. As such, some places have implemented corresponding strategies in response to these challenges. For example, Australia launched "MySuper" in 2014. It is a simple and low-cost default superannuation product which aims to manage investment risks based on the age of contributors, with controls on fees in order to increase the retirement income of employees. The default investment strategy to be implemented by the MPFA in 2016 is a similar arrangement.

9. The Melbourne Mercer Global Pension Index (MMGPI)[1] Report, which is published annually, scores the retirement protection systems of several places in terms of three areas, namely adequacy, sustainability and system integrity. Denmark, the Netherlands, and Australia, which received the highest scores in the 2015 MMGPI Report, have relatively well-established privately-managed

1 Supported by the state government of Victoria, Australia, the MMGPI is a comprehensive assessment index for the retirement protection systems around the world. Its primary objective is to examine the merits and shortcomings of the retirement protection systems of different places by using more than 40 indicators.

mandatory or quasi-mandatory occupational contributory pension plans. Similar to the MPF scheme in Hong Kong, the privately-managed mandatory pension plans in Denmark and Australia are defined contribution schemes. Denmark's scheme is based on contributions from both employers and employees, while Australia's involves contributions from employers only. In the Netherlands, the second pillar is formed by schemes run by individual industries or companies. Most of these are defined benefit schemes, but the number of defined contribution schemes is on the rise.

10. The retirement protection systems in Denmark and Australia are, on the whole, similar to Hong Kong's. They have privately-managed mandatory occupational contributory pension schemes, complemented with publicly-funded and means-tested social security schemes. At the same time, they do not have publicly-managed mandatory contributory schemes. On the other hand, the social security pillar in the Netherlands is funded by employees' contributions.

Singapore's system

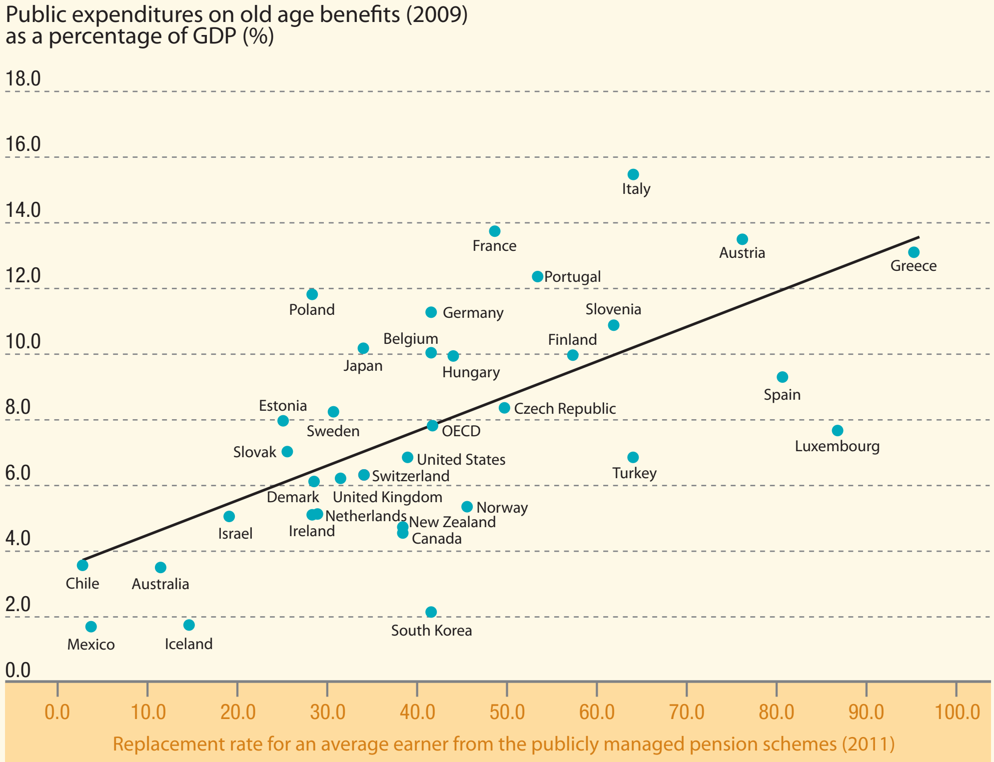
11. CoP also studied the retirement system of Singapore, where the tax rates are relatively low and the level of economic development is similar to Hong Kong. Singapore has all along relied on the Central Provident Fund (CPF) in order to provide retirement protection. CPF is a mandatory scheme operating with individual savings accounts. The employer and the employee are required to respectively make contribution of 17% and 20% (for a total of 37%) of the employee's monthly income to the scheme[2], with S$6,000[3] as the upper limit of salary When the employee reaches 55 years old, the total rate of contribution of the employer and the employee is lowered to 26%. The contribution rate is then further reduced to 16.5% and 12.5% respectively when the employee reaches 60 and 70[4].

12. CPF accounts are administered by the government, and the funds therein are invested in government securities. It consists of three different components: the Ordinary Account for purposes like housing and education, the Special Account for old-age savings and investment, and the Medisave Account for covering medical expenses. Of the total monthly contribution of 37%, the part injected into the Special Account will progressively increase from 6% for employees aged under 35, to 11.5% for employee aged 50-55, and then progressively decline to 1% for employee reaching 65 years old. Therefore, the savings earmarked for retirement protection accounts for only part of the total contribution. When a CPF participant reaches 55, he/she is required to combine the Ordinary Account and the Special Account into a new account, the Retirement Account. Moreover, the CPF LIFE Scheme helps participants convert their savings in the Retirement Account into annuities so that they can receive a monthly payout after retirement.

13. In August 2014, Singapore announced the introduction of the publicly-funded Silver Support Scheme to enhance support for retirees with lesser means. Singapore's Budget 2015 estimates that this scheme will benefit 30% of the elderly population (about 150 000 elderly persons). Under the scheme, a subsidy of S$300 to S$750 per quarter will be disbursed to the poorest 20% of the elderly. Their eligibility is determined by three factors, namely lifetime wages, level of family support, and type of housing.

2 Applicable to private sector employees and public sector non-pensionable employees in Singapore with a monthly wage of S$750 or above.
3 1 Singapore dollar = 5.48 Hong Kong dollars (based on the average exchange rate in September 2015).
4 The listed contribution rates of employers and employees will be effective from January 2016.

Diagram 2 More social resources are required for better protection



Source: OECD database

Summarising the overseas experience worth for our reference

14. A retirement protection system must strike a balance among various aspects, and the balance should take into account the level of economic development, the taxation regime, social values and the trend of population ageing in the place concerned. The most evident trade-off is that providing better protection will involve more resources (see Diagram 2).

15. As shown by the experience of OECD countries in Diagram 2, the higher the replacement rate[5] offered by publicly-managed schemes, the more public resources are required. As such, it will be more difficult to keep the plans sustainable. While a higher replacement rate can provide a better living standard for retirees, the financial burden will ultimately fall upon the people or enterprises paying the taxes.

16. As for the example of Japan, its National Pension Scheme (NPS) is a publicly-managed defined benefit pension scheme, running on a PAYG basis. It offers basic protection for all Japanese elderly residents who have reached the age of 65 in order to meet their basic living needs. The scheme is financed by premiums paid by the insured as well as the Japanese government. According to the reform plan announced in 2004, the Japanese government would gradually raise the ratio of state contribution to National Pensions benefits from one-third to 50%. Although this helped enhance the sustainability of the NPS, a further financial burden was added to the Japanese government, which was already struggling with debt. In August 2012, the National Diet of Japan endorsed an increase in the sales tax from 5% to 10% in two phases, so as to cover the funding for the national pension and other elderly-related expenses (e.g. long-term care and medical services). After the first phase (in which the sales tax was increased to 8%) was implemented in April 2014, household consumption declined and total retail sales fell, sending Japan into a technical recession. Eventually, the Japanese government decided to postpone the roll-out of the second phase (originally scheduled for October 2015) for 18 months, until April 2017.

5 Replacement rate is the ratio of an individual's pension to his or her pre-retirement income.

17. As shown in Diagram 3, the tax rates of OECD countries are generally higher than the prevailing tax rates of Hong Kong. Another key factor affecting sustainability is the pace of population ageing. As reflected by Diagram 4, the estimated pace of population ageing in Hong Kong will be faster than many OECD countries except South Korea. Taking these two factors into account, it would be more difficult for Hong Kong to ensure the financial sustainability, if we introduce a PAYG system.

Diagram 3 Tax rates of Hong Kong are much lower than those of OECD countries

	2014 Highest progressive salaries tax rate	2015 Profits tax rates for enterprises (Tax rates levied by central and regional governments combined)
Hong Kong	17%*	16.5%
Australia	45%	30%
Canada	29%	26.3%
Denmark	21.83%	23.5%
Germany	45%	30.18%
Italy	43%	27.5%
Japan	40%	32.11%
Netherlands	52%	25%
South Korea	38%	24.2%
United Kingdom	45%	20%
United States	39.6%	39%

Note: (*) The standard salaries tax rate and the highest progressive salaries tax in Hong Kong remain the same in 2014 and 2015. They are 15% and 17% respectively.

Sources: Inland Revenue Department of Hong Kong and OECD database

Diagram 4 Hong Kong is ageing faster than OECD countries

	Elderly dependency ratio	
	2014	2060
Hong Kong	211	656
Australia	221	388
Canada	230	430
Denmark	283	414 (2050)
Germany	325	623
Italy	331	607
Japan	424	784
Netherlands	290	492
South Korea	173	806
United Kingdom	273	458
United States	219	393

Note: The elderly dependency ratio refers to the number of elderly persons aged 65 or above per 1 000 persons aged 15 to 64. In the Netherlands, it refers to the number of elderly persons aged 65 and above per 1 000 persons aged 20 to 64.

Sources: Census and Statistics Department and the government statistics departments of the countries concerned

Background and Relevant Information on Severance Payment, Long Service Payment and "Offsetting" Mechanism

Eligibility for severance payment

1. Severance payment was introduced under the Employment Ordinance in 1974 to provide compensation for an employee who is dismissed by reason of redundancy and has no less than 24 months of continuous services with the same employer prior to the termination, so as to help alleviate his/her financial hardship caused by loss of employment.

2. According to the existing Employment Ordinance, an employer should pay severance payment to an employee who has been employed continuously for no less than 24 months if:

(a) the employee is dismissed by reason of redundancy;

(b) his/her fixed term employment contract expires without being renewed by reason of redundancy; or

(c) he/she is laid off under the circumstances as specified in the Employment Ordinance.

Eligibility for long service payment

3. Long service payment was introduced under the Employment Ordinance in 1986 to provide compensation for older employees dismissed by reason other than redundancy after serving the same employer for a long period of time. When long service payment was first introduced, it was targeted at older employees. As such, in calculating the amount of long service payment, younger employees would receive a smaller amount than older ones, and were required to have a longer service period in order to be eligible for long service payment. After a number of subsequent amendments were made to the Employment Ordinance, the provisions for long service payment have progressively evolved into the current version, where the amount payable to employees is calculated by the same formula irrespective of their age, and the protection coverage is extended to include employees who resign under certain special circumstances.

4. According to the existing Employment Ordinance, an employer should pay long service payment to an employee who has been employed continuously for no less than five years if:

(a) the employee is dismissed other by reasons of redundancy or serious misconduct;

(b) his/her fixed term employment contract expires without being renewed;

(c) he/she is permanently unfit for his/her present job due to health reasons;

(d) he/she resigns at the age of 65; or

(e) he/she dies during employment.

Calculation of severance payment and long service payment

5. For each dismissal incident an employee may only receiveeither severance payment or long service payment. Both payments are calculated by the same formula as shown below:

(Last month's wages* x 2/3)# x years of service

* An employee may elect to use his/her average wages in the last 12 months for calculation.

\# The monthly wage cap is $22,500, i.e. maximum payment of $15,000 ($22,500 x 2/3) for each year of service. Service of an incomplete year should be calculated on a pro rata basis.

The maximum amount of severance payment or long service payment is $390,000.

"Offsetting" arrangement

6. When severance payment and long service payment were introduced under the Employment Ordinance in 1974 and 1986 respectively, employers were allowed to use the gratuity based on the length of service paid to employees or provident fund to offset severance payment and long service payment (the so-called "offsetting" arrangement). Several amendments were made subsequently to the "offsetting" provisions. The "offsetting" arrangement is also applicable to the retirement protection schemes registered under the Occupational Retirement Schemes Ordinance and the Mandatory Provident Fund Schemes Ordinance.

7. The following table provides a summary of the Legislatures discussion on the introduction of and subsequent amendments to the "offsetting" provisions having regard to the legislation for severance payment and long service payment, including the Government's response to the motion debate held in the Legislative Council in 1995 on the establishment of the MPF. It seeks to facilitate public understanding of the policy intent of the "offsetting" arrangement, as well as the interface of severance payment and long service payment with the MPF and other retirement protection schemes:

Year	Details of Event
1974	The arrangement of severance payment under the Employment Ordinance came into effect. It provided compensation for employees dismissed by reason of redundancy to alleviate their financial hardship caused by loss of employment. The amendments to the ordinance also allowed employers to use gratuities based on length of service or their contributions made to provident fund schemes to "offset" the severance payment. According to the Official Report of Proceedings of the Legislative Council (when moving the Second Reading of the amendment bill on 3 July 1974), the Government said that the introduction of severance payment aimed to provide compensation for employees dismissed by reason of redundancy to alleviate their financial hardship caused by loss of employment. It also served to reduce labour disputes concerning redundancy and provide a framework for the making of severance payments (please refer to the extract of the original report: "Severance payment on redundancy is the means whereby an employee may be compensated for loss of employment through no fault of their own…The bill has three main aims. It will serve to protect employees against possible hardship arising from redundancy and, with Hong Kong's present system of social security, it seems important that this form of protection should be available to all employees who come within the scope of the Employment Ordinance. Second, it should serve to reduce the incidence of labour disputes concerning redundancy by introducing a minimum legal obligation in all cases. Third, it should help to clear up much of the existing confusion by confirming the practice, and regulating the method, of making severance payments."). Moreover, the Government expressed that as a number of firms in Hong Kong had been for many years providing long service gratuities or redundancy compensation under employment contracts, it was considered that severance payment should be alternative and not additional to such schemes and that employees should be given the option of choosing the most favourable arrangement. Severance payment was intended to provide compensation for employees who lost employment and did not operate as an additional benefit where such protection was already available ("As a number of firms in Hong Kong have for many years included long service gratuities or redundancy provisions in the terms of their contracts of employment, which adequately protect employees against the adverse effects of redundancy, it was concluded that severance pay should be alternative and not additional to such schemes and that employees should be given the option of choosing which was the more favourable. Severance pay is intended to provide compensation for loss of employment and not to operate as a bonus where such protection is already available.").

1974	According to the Official Report of Proceedings of the Legislative Council (when the debate on Second Reading of the amendment bill resumed and the Committee Stage Amendments to the bill were handled on 14 August 1974), the Government also considered that there was another section under the same bill excluding pensionable civil servants from the right to severance payment. Therefore, a similar principle should be applied in the private sector whereby employers could use gratuity or their contributions to provident funds to offset severance payment (…civil servants as a class of employee are excluded from the right to severance payment because of their entitlement under the Pension Ordinance. It is considered that a similar principle should be applied in the private sector whereby entitlement to gratuity or the employers contribution to a provident fund should be offset against entitlement to severance pay…").
1986	The arrangement of long service payment under the Employment Ordinance came into effect. The initial aim was to provide compensation for older employees who were dismissed by reason other than redundancy after serving the same employer for a long period of time. According to the Official Report of Proceedings of the Legislative Council (when moving the Second Reading of the amendment bill on 4 December 1985), the Government expressed that "…Since 1974 employees dismissed by reason of redundancy have been eligible for a severance payment from their employer, currently set at two thirds of a month's wages for each completed year of service. In the case of employees whose contract of employment is terminated under other circumstances, the Employment Ordinance merely requires the service of an agreed or statutory period of notice or the payment by the employer of wages in lieu of such notice. This disparity in the treatment of a dismissed employee has been often criticised as unfair, and especially unfair to ageing employees dismissed through no fault of their own who have served the same employer for several decades. Many older employees after dismissal find it especially difficult to secure alternative employment, in particular manual workers… Instead, the present long service payment proposals have been developed as a practical alternative to unfair dismissal legislation, based on the premise that the dismissal of an elderly long service employee without some form of provision for his future is itself unreasonable. A statutory requirement for an employer to make a payment to a dismissed employee, based on his age and length of service, would achieve much the same result as an employee's entitlement to monetary compensation under unfair dismissal legislation while avoiding the need for complex and expensive procedures to establish that the dismissal had been unreasonable in the circumstances". The amendments to the ordinance also allowed employers to use their contributions to provident fund schemes or gratuities based on length of service to offset long service payment. The relevant provisions were similar to those "offsetting" provisions applicable to severance payment. According to the Official Report of Proceedings of the Legislative Council, government officials and Members did not discuss about the "offsetting" provisions during the resumption debate of Second Reading of the amendment bill (on 18 December 1985).
1992	The Employment (Amendment) Bill was passed to amend the provisions on severance payment and long service payment, including clarifying some ambiguities relating to the "offsetting" arrangement[1]. According to the Official Record of Proceedings of the Legislative Council (when moving the Second Reading of the amendment bill on 13 May 1992), the Government indicated that "we propose to remove the ambiguities in the existing provisions on setting off of retirement scheme payment against severance or long service payment. To ensure that employers will not have to pay double benefits, clauses 7 and 11 put it beyond doubt that payment of severance or long service payment can be set off by retirement scheme payment and vice versa".
1993	The Occupational Retirement Schemes Ordinance came into effect, providing a legal basis for the regulation of voluntary occupational retirement schemes. No discussion was held on the "offsetting" arrangement during the legislative process, and no provision was made for the "offsetting" arrangement under the Occupational Retirement Schemes Ordinance. However, it was stipulated in the Employment Ordinance that employers could reduce severance payment or long service payment by their contributions to retirement schemes. Therefore, the "offsetting" arrangement is also applicable to the retirement protection schemes registered under the Occupational Retirement Schemes Ordinance.
1995	In March 1995, the Legislative Council debated the following motion on retirement protection moved by the Secretary for Education and Manpower (SEM): "That this Council urges Government to introduce as expeditiously as possible a mandatory, privately managed occupational retirement protection system with provision for the preservation and portability of benefits." When talking about the interface of severance payment and long service payment with the MPF in his opening speech, the SEM pointed out that the "offsetting" arrangement was to ensure that "Employers do not pay twice. Severance payments and long service payments are not designed as supplementary retirement schemes. They are intended to be alternatives to these retirement schemes. That is why the offsetting provisions exist under the present voluntary system of occupational retirement schemes. We do not intend to change it under the MPF, although we will need to consider very carefully the effect of the MPF on both schemes". In his concluding remarks, the SEM said that "these were designed at a time when there was little retirement protection. We were concerned about the difficulties that workers, especially elderly ones, might face in finding another job. These measures were introduced to help them over such difficulties. At the same time, we tried to encourage the provision of voluntary occupational retirement schemes. There is already provision in the Employment Ordinance to allow for the setting off of an employer's benefit payments under a retirement scheme by the amount payable for severance payments or long service payments".

1995	In July 1995, the Legislative Council passed the Mandatory Provident Fund Schemes Bill. During the debate on Second Reading of the bill, the SEM made the following response on the "offsetting" arrangement: "This is in line with our policy intent to enable the long-established set-off procedure under the Employment Ordinance in respect of schemes under ORSO to continue for MPF schemes. We have made it very clear that employers are not expected to pay twice under this new system…We do, of course, realize in the longer term the interface of long service payments and severance payments with the MPF need to be examined…". At the Committee stage, some Members proposed an amendment to abolish the "offsetting" arrangement. In response to the amendment, the SEM said: "At present, the employers' contributions to a retirement scheme may be set off against any amount paid out for severance payments or long service payments. It is not appropriate to expect employers to pay twice".
2001	The Legislative Council passed the Employment (Amendment) Ordinance 2001. Technical amendments were made to the "offsetting" provisions applicable to severance payment and long service payment under the Employment Ordinance, allowing employers to reduce severance payment or long service payment payable to employees by MPF scheme benefits already paid to the employees, so as to reflect the policy intent of the provisions more accurately.

Long service payment and retirement protection

8. Apart from the above discussions held during the legislative process, it is also worth mentioning that the Government established a Working Group on Retirement Protection comprising government officials and representatives of outside bodies, in November 1991. The Working Group, was responsible for reviewing the various options of enhancing retirement protection for working persons. A consultation paper entitled "A Community-wide Retirement Protection System" was issued by the Working Group in October 1992, proposing the establishment of a mandatory system linked with occupation, under which both employers and employees were required to make contributions. The role of long service payment in the retirement protection arrangement was mentioned in the paper. The relevant parts are summarised below:

"The Government had preferred an alternative strategy. This was

(a) to encourage the establishment of private retirement schemes on a voluntary basis; and

(b) to tighten control over the operation of those schemes already in existence; while

(c) enhancing the provision of social welfare and improving the Long Service Payment Scheme (LSPS) established under the Employment Ordinance." (paragraph 1.3 of the consultation paper)

"The proposed retirement protection system has to be seen in the light of -

(a) current retirement schemes;

(b) social security schemes;

(c) the Long Service Payment Scheme (LSPS)." (paragraph 7.1 of the consultation paper)

"There are two possible options for the LSPS in future. Under the first option, the LSPS would remain in place and run in parallel with the retirement protection system. The existing provision would be maintained whereby LSP may be reduced by that part of the retirement scheme or provident fund payments contributed by the employer in relation to the years of service for which LSP is payable. As all employers will be required to set up retirement

1 The major amendments were to clearly specify that gratuity or retirement scheme payment for an employee could be reduced by severance payment or long service payment already paid to the employee, or severance payment or long service payment for an employee could be reduced by gratuity or retirement scheme payment already paid to the employee.

protection schemes, then their liability for LSP will decrease, and eventually disappear. Under this option, the LSPS cannot be abolished in the near future because there will inevitably be many workers who will still receive more under it than they would in the form of retirement benefits." (paragraph 7.8 of the consultation paper)

"The second option would be to amend the LSP provisions so as, in effect, to turn the LSPS into a retirement protection scheme..." (paragraph 7.9 of the consultation paper)

"The practicalities of adopting a retirement protection scheme based on amending the Long Service Payment Scheme should be examined further at a later date." (paragraph 10.1(38) of the consultation paper)

Overseas experience

9. In April this year, the Research Office of the Legislative Council prepared an information note on severance payment and long service payment in various places. The information note quoted the findings of a report published by the World Bank in 2012 on the severance payment arrangement in 183 places around the world, as well as the findings of a study conducted by the International Labour Organization in 2013 on the employment protection legislation in 95 countries. Some noteworthy points include:

(a) Among the 183 places studied by the World Bank, 152 (83%) had mandated severance payment schemes, 18 (10%) had quasi-mandated severance payment schemes, and 13 (7%) had neither; and

(b) Among the 95 countries studied by the International Labour Organization, Switzerland and Indonesia were the only countries with statutory long service payment.

Detailed Financial Analysis of Simulated "Regardless of Rich or Poor" and "Those with Financial Needs" Options

1. This Annex purports to set out the technical details of the financial projections of the two simulated options (viz. "regardless of rich or poor" and "those with financial needs" options), including how to project the increased expenditure brought about by the two simulated options in the next 50 years; how to evaluate their impact on the sustainability of our public finance; and how to estimate the required tax rate hike or tax rate if the increases in expenditure were to be funded by raising one of our existing taxes (profits tax and salaries tax) or by introducing a new tax (goods and services tax (GST), and payroll old age tax).

2. For the purpose of comparison, all sums are in 2015 prices. As the "Demo-grant" proposal is recommended by the Research Team after studying all stakeholders' proposals, the CoP agrees that the simulated "regardless of rich or poor" option should be modelled on the payment level and disbursement criteria (including its interface with other social security schemes) as proposed in the "Demo-grant" proposal. Under this simulated option, a monthly payment of $3,230 (based on the $3,000 as of 2013 prices proposed by the Research Team and adjusted to 2015 prices) will be paid to all elders aged 65 or above. Separately, the projections assume that the two simulated options will be launched in 2015. Also, the entire set of projections is based on the latest 2014-based population and labour force projections.

Projection for the baseline scenario

3. In assessing the increased expenditure and the impact on fiscal sustainability of the two simulated options, the starting point is to come up with the public expenditure under the baseline scenario. This analysis adopts the analytical framework of the "Working Group on Long-term Fiscal Planning Report" (LTFP framework) released by the Financial Services and the Treasury Bureau in March 2014 for projecting the overall elderly social security expenditure under the baseline scenario (i.e. "no service enhancement" scenario, prior to any enhancement measures on retirement protection). The projection period is extended to 2064.

4. In this financial projection, the assumptions on social security take-up rates for the elderly are mainly based on the LTFP's analytical framework. The details are as follows:

(a) Take-up rate of Comprehensive Social Security Assistance Scheme (CSSA)

As shown in Chart 1(a), the elderly CSSA take-up rate exhibits a downtrend over the past 10 years, from 19.4% in 2005 to 13.1% in 2015[1]. With the update based on the LTFP framework, the take-up rate of the elderly CSSA is expected to largely follow the past downtrend, falling gradually from 13.1% in 2015 to 6.7% in 2041, and then to 6.1% in 2064 .

1 Based on the number of elderly receiving CSSA in June 2015 and the elderly population in mid-2015 (provisional figures).

(b) Take-up rate of Old Age Living Allowance (OALA)

The time series of the take-up rate of OALA spans only a relatively short period of time since its launch in April 2013, and phased reviews on recipients' eligibility have all along been conducted since its implementation. Hence, it is difficult to carry out an in-depth analysis on the trend of the take-up rate. In this connection, it is assumed that, based on the LTFP framework, the OALA take-up rates (34% for aged 65-69 and 40% for aged 70 and above) would remain unchanged over the projection period.

(c) Take-up rate of Disability Allowance (DA)

Based on the LTFP framework, the take-up rate of DA is assumed to be broadly the same as its current level, i.e. at around 3%.

(d) Take-up rate of Old Age Allowance (OAA) (for elders aged 70 and above)

Based on the LTFP framework, a constant take-up rate of OAA over the projection period, i.e. at around 29% is assumed.

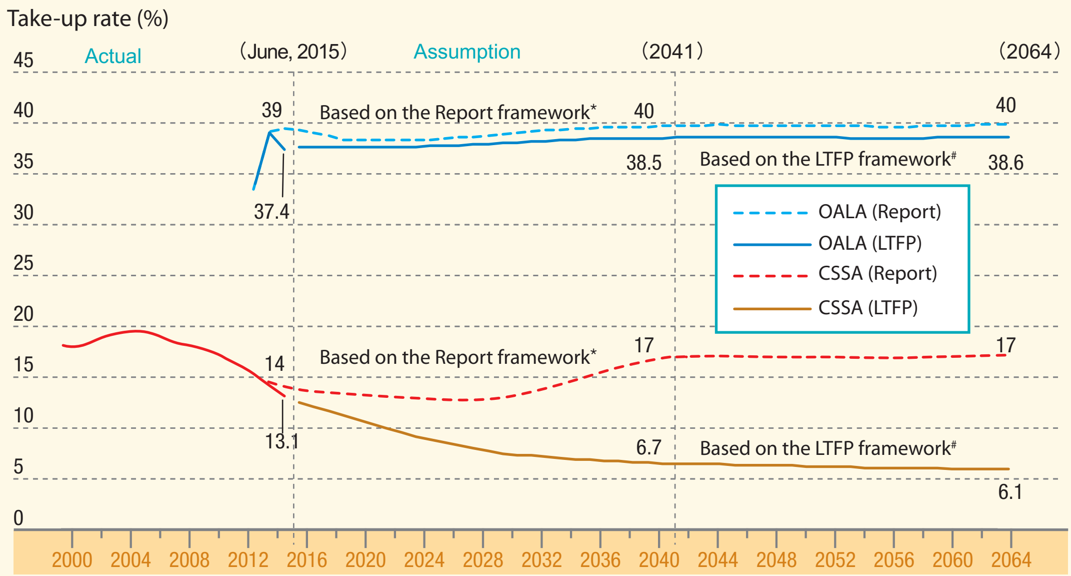
5. It is noteworthy that the CSSA take-up rate assumptions above are different from those adopted in the Report of the Research Team (Report framework). In terms of the trend, the elderly CSSA take-up rate in the Report framework is assumed to hover at around 13% during the period from now till late-2020s, and will start to rise successively after 2030 reaching 17% in 2041 – the assumed take-up rates are higher in the Report framework than in the LTFP framework (see Chart 1(a)). Since the overall take-up rate of various social security schemes for the elderly aged 70 and above is assumed to be 88%, whilst concurrently, the CSSA take-up rate is assumed to rise back between 2030 and 2041 under the Report framework, the assumed level of OAA take-up rate would thus be lower than that in the LTFP framework (Chart 1(b)). For OALA and DA, there is no substantial difference in the corresponding take-up rate assumptions between the Report framework and the LTFP framework[2].

6. Given the sustained declines in the elderly CSSA take-up rates over the past ten years, the expected higher accumulated asset level upon retirement at age 65 as the Mandatory Provident Fund Scheme matures and the improvement in education attainment of the population, the risk of elders falling into the "CSSA net" should be lower in the future. After deliberations, this projection adopts the LTFP framework as the basis for the elderly take-up rate assumptions of the various social security schemes. This approach also provides a platform for comparison if the required financial resources are assumed to be met by public fund eventually, which will facilitate the assessment of their implications on fiscal sustainability.

2 Under the framework of the Report, the take-up rates of OALA for the elderly aged 65-69 and the elderly aged 70 and above are around 31%-32%, and around 41%-42% respectively; and the assumed take-up rate for DA is about 2%-3%.

7. Based on the above take-up rate assumptions of CSSA, OALA, DA and OAA under the LTFP framework, together with the latest population projections and monthly payment levels, the overall elderly social security expenditure under the baseline scenario could thus be projected.

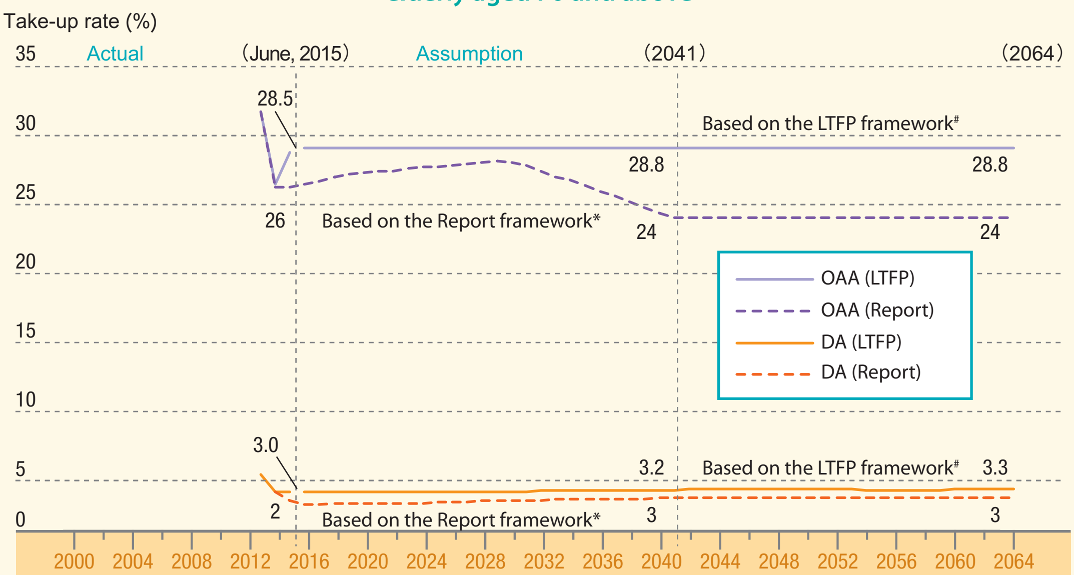
Chart 1(a) Take-up rates of CSSA and OALA for the elderly aged 65 and above



Notes: (*) Based on the take-up rate assumptions for the elderly of different age groups adopted by the Report, updated according to the latest population projection. Under the Report framework, the take-up rates in the period between 2042 and 2064 are assumed to be the same as those in 2041.

(#) Based on the projection framework of LTFP, updated using the latest population projection.

Chart 1(b) Take-up rates of DA for the elderly aged 65 above and OAA for the elderly aged 70 and above



Notes: (*) Based on the take-up rate assumptions for the elderly of different age groups adopted by the Report, updated according to the latest population projection. Under the Report framework, the take-up rates in the period between 2042 and 2064 are assumed to be the same as those in 2041.

(#) Based on the projection framework of LTFP, updated using the latest population projection.

Simulated "regardless of rich or poor" option

8. As the simulated "regardless of rich or poor" option recommends a monthly payment of $3,230 to all elders aged 65 and above, it is assumed in the projection that all Hong Kong population aged 65 and above will receive the payment.

9. The increased expenditure stemming from the simulated "regardless of rich or poor" option is derived as the total payment expenses, after excluding the portion taken as income in the CSSA system, as well as income of OALA and OAA. Under the design of the simulated "regardless of rich or poor" option, the payment from the simulated "regardless of rich or poor" option received by CSSA elderly recipients will be regarded as income, whilst elderly recipients with specific needs can continue to receive rent and other allowances under CSSA. Hence, the overall financial support available to CSSA elderly recipients will be the same as that under the existing system. OALA and OAA, however, will be replaced by the payment of the simulated option.

Simulated "those with financial needs" option

10. The simulated "those with financial needs" option recommends to provide a monthly payment of $3,230 to each elder with assets no more than $80,000 (single) or no more than $125,000 (couple) and having made income declarations similar to that for OALA (i.e no more than $7,340 (single) and $11,830 (couple)). According to the administrative records of the Social Welfare Department as of June 2015, about 60% (250 000) of the elderly recipients of OALA meet such asset criteria at present. Taking this as reference, it is assumed that for the whole projection period, 60% of the OALA recipients under the existing scheme will switch to the simulated "those with financial needs" option, from which the entailed increased expenditure is projected.

11. It is noteworthy that the projection does not take into account induced new applications because of the increase in payment level from $2,390 to $3,230 per month. Hence, the current estimation on the increased expenditures of the option is on the conservative side.

The increased expenditures of the two simulated options

12. Table 1 shows the respective increased expenditures of the two simulated options over the 50-year projection period, compared to the baseline scenario. Chart 2 illustrates graphically the overall expenditures under the baseline scenario and the two simulated options.

13. Compared with the baseline, the overall increased expenditure stemming from the simulated "regardless of rich or poor" option over the 50-year projection period amounts to $2,395 billion (2015 constant prices[3]). On the contrary, the increased expenditure over the next 50 years stemming from the simulated "those with financial needs" option is $255.5 billion, around one tenth of that from the simulated "regardless of rich or poor" option. Under the simulated "regardless of rich or poor" option, the increased expenditure per annum will surge from $22.6 billion in 2015 to $56.3 billion in 2064 (i.e. the difference between the red line and the orange line), much higher than that of $2.5 billion in 2015 and $6 billion in 2064 under the simulated "those with financial needs" option (the difference between the blue line and the orange line).

3 Unless otherwise indicated, all projections of expenditure are 2015 constant prices.

Table 1 Financial projections of the simulated "regardless of rich or poor" option and the simulated "those with financial needs" option ($ bn, 2015 prices)

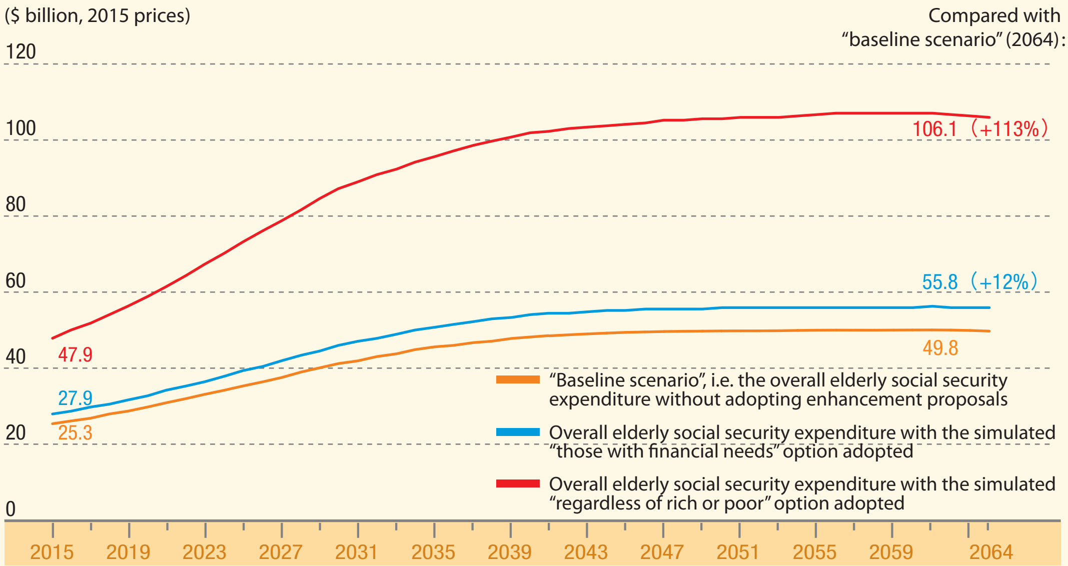
Year	Baseline	Simulated "regardless of rich or poor" option			Simulated "those with financial needs" option		
	The overall elderly social security expenditure#	Overall expend-iture#	Increased expenditure*		Overall expend-iture#	Increased expenditure*	
				Rate of increase (%)			Rate of increase (%)
2015	25.3	47.9	22.6	89.1	27.9	2.5	10.0
2016	26.1	49.9	23.7	90.8	28.8	2.7	10.2
2017	26.9	51.9	25.0	92.8	29.7	2.8	10.3
2018	27.7	54.0	26.2	94.6	30.6	2.9	10.4
2019	28.7	56.4	27.7	96.5	31.7	3.0	10.6
2020	29.7	58.9	29.2	98.3	32.9	3.2	10.7
2021	30.7	61.6	30.8	100.3	34.1	3.3	10.8
2022	31.8	64.4	32.6	102.4	35.3	3.5	11.0
2023	32.9	67.3	34.4	104.6	36.6	3.7	11.1
2024	34.1	70.3	36.2	106.3	37.9	3.8	11.2
2025	35.2	73.3	38.0	107.9	39.2	4.0	11.3
2026	36.4	76.1	39.7	109.0	40.6	4.2	11.4
2027	37.5	78.8	41.2	109.8	41.9	4.3	11.5
2028	38.8	81.9	43.1	110.9	43.3	4.5	11.6
2029	40.0	84.7	44.7	111.6	44.7	4.7	11.7
2030	41.1	87.2	46.1	112.0	45.9	4.8	11.7
2031	42.1	89.2	47.1	112.0	47.0	5.0	11.8
2032	42.9	90.9	48.0	111.7	48.0	5.1	11.8
2033	43.9	92.7	48.8	111.2	49.0	5.2	11.8
2034	44.7	94.3	49.6	111.0	50.0	5.3	11.8
2035	45.5	95.9	50.4	110.8	50.9	5.4	11.8
2036	46.2	97.4	51.2	110.9	51.6	5.5	11.8
2037	46.7	98.6	51.9	111.1	52.3	5.5	11.9
2038	47.3	99.9	52.6	111.3	52.9	5.6	11.9
2039	47.8	101.0	53.2	111.5	53.5	5.7	11.9
2040	48.2	102.0	53.8	111.6	54.0	5.7	11.9
2041	48.5	102.6	54.0	111.4	54.3	5.8	11.9
2042	48.8	103.1	54.3	111.4	54.6	5.8	11.9
2043	49.0	103.6	54.5	111.2	54.9	5.9	11.9
2044	49.2	104.0	54.8	111.2	55.1	5.9	11.9
2045	49.4	104.5	55.0	111.3	55.3	5.9	11.9
2046	49.5	104.9	55.3	111.6	55.5	5.9	12.0
2047	49.7	105.3	55.6	112.0	55.6	6.0	12.0
2048	49.7	105.6	55.8	112.3	55.7	6.0	12.0
2049	49.8	105.8	56.0	112.5	55.7	6.0	12.0
2050	49.8	106.0	56.1	112.7	55.8	6.0	12.0
2051	49.8	106.1	56.2	112.9	55.8	6.0	12.0
2052	49.8	106.1	56.3	112.9	55.8	6.0	12.0
2053	49.9	106.3	56.4	113.1	55.9	6.0	12.1
2054	49.9	106.7	56 .7	113.6	56.0	6.0	12.1
2055	50.0	107.0	57.0	113.9	56.1	6.0	12.1
2056	50.0	107.2	57.1	114.2	56.1	6.1	12.1
2057	50.0	107.2	57.2	114.4	56.1	6.1	12.1
2058	50.0	107.2	57.2	114.4	56.1	6.1	12.1
2059	50.0	107.2	57.1	114.2	56.1	6.1	12.1
2060	50.1	107.2	57.1	114.1	56.1	6.1	12.1
2061	50.1	107.2	57.1	114.0	56.1	6.1	12.1
2062	50.0	107.0	57.0	113.9	56.1	6.1	12.1
2063	49.9	106.7	56.7	113.6	56.0	6.0	12.1
2064	49.8	106.1	56.3	113.2	55.8	6.0	12.1
2015 -2064 Total	2,171.4	4,566.4	2,395.0	110.3	2,426.9	255.5	11.8
2015 -2064 Average	43.4	91.3	47.9	110.3	48.5	5.1	11.8

Notes: Based on the take-up rate assumptions of elderly social security schemes under the LTFP framework. For details, please see paragraph 4 and Chart 1 of this Annex.

(#) The overall elderly social security expenditure under the baseline scenario includes the CSSA, DA, OALA and OAA for the elderly aged 65 or above. Under the simulated "regardless of Rich or Poor" option, the overall elderly social security expenditure equals to the overall expenditure of the baseline scenario, plus the increased expenditure resulted from the simulated "regardless of rich or poor" option (i.e. deducting from the payment expenses the part of payment which is regarded as income under the CSSA system, the OALA and OAA). Under the simulated "those with financial needs" option, the overall elderly social security expenditure equals to the overall expenditure of the baseline scenario, plus the increased expenditure resulted from the new tier of financial assistance under the OALA. All expenditure does not cover the Guangdong Scheme.

(*) "Increased expenditure" is equal to overall expenditure of the the option minus "The overall elderly social security expenditure under the baseline scenario".

Chart 2 Overall elderly social security expenditure under the simulated "regardless of rich or poor" option and the simulated "those with financial needs" option



Note: The projection has adopted the social security take-up rates for the elderly under the LTFP framework. The overall elderly social security expenditure under the baseline scenario includes the CSSA, DA, OALA and OAA for the elderly aged 65 or above. Under the simulated "regardless of rich or poor" option, the overall elderly social security expenditure equals to the overall expenditure of the baseline scenario, plus the increased expenditure resulted from the simulated "regardless of rich or poor" option (i.e. deducting from the payment expenses the part of payment which is regarded as income under the CSSA system, the OALA and OAA). Under the simulated "those with financial needs" option, the overall elderly social security expenditure equals to the overall expenditure of the baseline scenario, plus the increased expenditure resulted from the new tier of financial assistance under the OALA. All expenditure does not cover the Guangdong Scheme.

( ) The percentage increase as compared with the baseline scenario.

Source: CoP Secretariat

Implications on fiscal sustainability

14. Adding the increased expenditure stemming from the two simulated options onto the baseline financial projections as projected under the LTFP framework, their implications on public finances in the absence of any tax hike can be assessed. Table 2 shows that, if the Government were to pursue the simulated "regardless of rich or poor" option, the timing of the structural deficit will be advanced by six years to 2023-24 and fiscal reserves will be depleted in full eight years earlier. On the other hand, the increased expenditure incurred by the simulated "those with financial needs" option will advance both the onset of a structural deficit and the full depletion of the fiscal reserves by one year.

Table 2 The impact of the two simulated options on public finances

	The year of the first structural deficit	The year of full depletion of fiscal reserves
Base case (no service enhancement) (LTFP framework)	2029-30	2041-42
Simulated "regardless of rich or poor" option	2023-24 (Advanced by six years)	2033-34 (Advanced by eight years)
Simulated "those with financial needs" option	2028-29 (Advanced by one year)	2040-41 (Advanced by one year)

Note: ( ) Figures in parenthesis show the difference between the year of the first structural deficit or the full depletion of fiscal reserves as compared to the Base case in the LTFP framework.

The required tax hikes for financing the options

15. To facilitate public discussion and comparison, the CoP has considered four alternatives of "who foots the bill": (a) raising the profits tax rate; (b) raising salaries tax revenue; (c) introducing goods and services tax; and (d) introducing payroll old age tax (calculated based on the "Demo-grant" proposal in the Report). This may facilitate public understanding of the total tax burdens that need to be borne by the whole community for the increased expenditure arising from the two simulated options (see Table 3).

(a) Raising the profits tax

Profits tax revenue ties closely with the vicissitudes of the economy. In the past 30 years (from 1985-86 to 2014-15 financial year), the ratio of profits tax to nominal GDP averaged at 4.4%. According to the projections in the LTFP framework, the ratio of profits tax to nominal GDP in the 27 years between 2015 and 2041 will be 6.0% on average. In the current exercise, the assumed ratio of profits tax to nominal GDP from 2015 to 2041 is taken directly from the LTFP Report. The ratio from 2042 to 2064 is assumed to be same as that in 2041[4].

Based on the relationship above and assuming that the increased expenditure arising from the simulated "regardless of rich or poor" option were to be met solely by a hike in profits tax rate, profits tax rate has to be raised from the current 16.5% to 20.7% on average over the period of 2015 to 2064, which is equivalent to an increase of around 4.2 percentage points from the current level. As for the simulated "those with financial needs" option, profits tax rate has to be adjusted to 16.9%, a 0.4 percentage point increase from the current level (see Table 3).

(b) Raising salaries tax

Over the past 30 years (from 1985-86 to 2014-15 financial year), the ratio of salaries tax to nominal GDP averaged at 2.3%. The LTFP framework projects that the ratio of salaries tax to nominal GDP will average at around 2.7% in the 27 years between 2015 and 2041. This financial projection also adopts this ratio from the LTFP framework as assumptions, and it is also assumed that the salaries tax to nominal GDP ratios in the years from 2042 to 2064 are the same as that in 2041.

If the increased expenditure were to be met solely by raising salaries tax, and assuming that the tax burdens of all salaries tax payers will be increased on a pro-rata basis, each salaries tax payer would have to pay an additional 55% on average between 2015 and 2064 under the simulated "regardless of rich or poor" option, i.e. equivalent to raising the standard salaries tax rate by 8.3 percentage points from the current 15% to 23.3%. Under the simulated "those with financial needs" option, each salaries tax payer will

4 As all taxes are calculated at current market prices, to facilitate comparison of tax increase among different proposals, increases in expenditure incurred by the respective proposals will be converted from the 2015 constant prices to the current prices based on the consumer inflation assumptions in the 2015-16 Budget and the LTFP framework. The consumer price inflation assumptions for 2016-2064 are as follows:

	Average annual rate of change in consumer inflation	Remarks
2016 to 2019 (4 years)	3.0%	Sourced from the 2015-16 Budget
2020 to 2041 (22 years)	3.0%	Based on the assumptions made in the LTFP framework
2042 to 2064 (23 years)	3.0%	Assumed to be the same as that for 2041

have to pay an additional 6% salaries tax on average, i.e. equivalent to raising the standard salaries tax rate by 0.9 percentage point to 15.9% (see Table 3).

(c) Introducing the goods and services tax

As there is no GST in Hong Kong at present, only a crude estimation could be given. With reference to the GST framework in the "Consultation Document of Public Consultation of Tax Reform" published in 2006, the tax base of GST in the financial projection will cover food and non-alcoholic beverages; alcoholic beverages; tobacco; clothing, footwear and other personal effects; fuel and light; water; furniture, furnishings and household equipment; personal care; medical care and health expenses; local transport; communication expenses; recreation and entertainment (except betting); education and other services (except services of financial and non-profit-making organisations), without allowing for any tax reduction or tax relief measures. According to the 2014 GDP figures, the consumption expenditure on the above goods and services (excluding the expenditures of non-local residents in the local market) totalled at $839.5 billion[5]. With this as the tax base of GST, it could be inferred that each percentage point of the GST tax rate might generate an income of about $8.4 billion. Nonetheless, since the consumption pattern is sensitive to the ebbs and flows of an economic cycle, to smooth out the short-term economic volatilities on long-term projections, the financial projection in this Annex adopts the average share in the past 20 years (from 1995 to 2014) for the projection of the GST tax base in the next 50 years.

If the increased expenditure incurred by the simulated "regardless of rich or poor" option were to be met solely by GST, an annual GST tax rate of 4.5% from 2015 to 2064 on average will be required, versus around 0.5% under the simulated "those with financial needs" option (see Table 3).

(d) Introducing the payroll old age tax

The tax base projection of payroll old age tax adopts the original projection methodology of the Report, with suitable updates based on the latest labour force projections and income distribution from the "Report on Annual Earnings and Hours Survey" of the Census and Statistics Department.

If the payroll old age tax were to be introduced to meet the increased expenditure incurred by the simulated "regardless of rich or poor" option, both an employee and his employer have to pay an average of 1.6% of the employee's income for the payroll old age tax if the monthly income is below $11,000[6]. For an employee with monthly income ranging from $11,000 to below $22,000, both the employee and his employer have to pay an average of 2.4% of the employee's income for the tax; for an employee with monthly income above $22,000, both the employee and his employer have to pay 3.9% of the employee's income. For the simulated "those with financial needs" option, the rates of payroll old age tax for the corresponding three income groups are 0.2%, 0.3% and 0.4% respectively[7] (see Table 3).

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5 Equivalent to about 37.2% of GDP. In the past 20 years (1995 – 2014), the corresponding ratio averaged at 33.5% on average.

6 If the monthly income of the employee is below $7,100, the employee is not required to pay for the tax; only the employer is required to pay for the tax.

7 According to the Report, the maximum level of relevant monthly employee's income for payroll old age tax is $129,000 (2015 prices), meaning that the monthly income above $129,000 is not assessable to the payroll old age tax. Hence, the maximum total annual amount of the payroll old age tax payable by the employee and employer together is about $121,000 and $12,400 under the simulated "regardless of rich or poor" option and the simulated "those with financial needs" option respectively.

8 For the economic growth assumptions in 2015-2064, please refer to paragraph 2.5 in Chapter 2.

16. It is noteworthy that the above analysis of "who foots the bill" is only a crude estimation based on the economic growth assumptions[8] under the current tax regime, without taking into account the consequential negative impacts on Hong Kong's economic vitality and long-term competitiveness after the tax rate hike or new taxes. As a matter of fact, the need to raise tax rates by a huge extent or even to introduce new taxes to fund the increased expenditure stemming from the "regardless of rich or poor" option will represent a departure from the low-tax-rate regime, and it also runs counter to the worldwide trend of cutting tax rates. Consequently, it will not only weaken our ability in attracting foreign investments, but will also undermine the long-term economic development of Hong Kong.

17. In addition, realistically, raising tax rates (in particular a significant increase in tax rates) is bound to alter the behaviours of the taxpaying individuals and enterprises. The original tax base would shrink as a result, and raising tax rates may not necessarily lead to a proportionate increase in tax revenue. As such, the required tax rates to meet the expenditures of the various retirement protection options are likely to be higher than the current crude estimates.

Table 3 Four financing alternatives to "foot the bill" of the two simulated options (2015 prices)

	Simulated "regardless of rich or poor" option			Simulated "those with financial needs" option		
(a) Increase in profits tax rate (% point)	2015	2041	2064	2015	2041	2064
	2.8	4.5	4.6	0.3	0.5	0.5
	2015 - 2064 Average			2015 - 2064 Average		
	4.2			0.4		
(b) Increase in salaries tax standard tax rate~ (% point)	2015	2041	2064	2015	2041	2064
	4.9	9.0	9.1	0.6	1.0	1.0
	2015 - 2064 Average			2015 - 2064 Average		
	8.3			0.9		
(c) Introduce GST (tax rate)	2015	2041	2064	2015	2041	2064
	2.8	4.9	5.0	0.3	0.5	0.5
	2015 - 2064 Average			2015 - 2064 Average		
	4.5			0.5		
(4) Introduce payroll old age tax (tax rate*)	Income group	2015		Income group	2015	
	Below $11,000^	0.7		Below $11,000^	0.1	
	Between $11,000 and $22,000 below	1.0		Between $11,000 and $22,000 below	0.1	
	$22,000 and above#	1.6		$22,000 and above#	0.2	
	Income group	2041		Income group	2041	
	Below $11,000^	1.8		Below $11,000^	0.2	
	Between $11,000 and $22,000 below	2.6		Between $11,000 and $22,000 below	0.3	
	$22,000 and above#	4.4		$22,000 and above#	0.5	
	Income group	2064		Income group	2064	
	Below $11,000^	2.0		Below $11,000^	0.2	
	Between $11,000 and $22,000 below	3.1		Between $11,000 and $22,000 below	0.3	
	$22,000 and above#	5.1		$22,000 and above#	0.5	
	Income group	2015 - 2064 Average		Income group	2015 - 2064 Average	
	Below $11,000^	1.6		Below $11,000^	0.2	
	Between $11,000 and $22,000 below	2.4		Between $11,000 and $22,000 below	0.3	
	$22,000 and above#	3.9		$22,000 and above#	0.4	

Notes: (^) If the monthly employee's income is below $7,100, the employee is not required to pay the tax, only the employer is required to pay the tax.

(#) The maximum level of employee's monthly income is $129,000.

(~) Increase in salaries tax standard rate, assuming the increased expenditures are borne by all tax payers on a pro-rata basis.

(*) This is the tax rate at which both the employee and the employer need to pay the tax.

Updated Financial Analysis of Stakeholders' Proposals and the "Demo-grant" in the Report

1. This Annex is divided into two parts. The first part sets out the projection results of the five proposals from stakeholders as included in the Report – i.e. the proposals by The Hong Kong Federation of Trade Unions (FTU), Alliance for Universal Pension (AUP), The Professional Commons (PC), Democratic Alliance for the Betterment and Progress of Hong Kong (DAB) and New People's Party (NPP), and the "Demo-grant" proposed by Research Team[1]. This projection adopts the same projection framework in the Report . The second part presents the projection results based on the framework adopted by the "Working Group on Long-term Fiscal Planning Report" (LTFP framework).

2. The updated projections in the first part deploy the same projection framework of the Report, including the financing arrangements of the proposals, except for the following changes and updates:

(a) All prices are adjusted to 2015 prices in accordance with actual inflation;

(b) The proposals are assumed to be launched in 2015: Cash injection and payment of the FTU proposal begin respectively in 2015 and 2016; "Demo-grant", AUP, DAB and NPP proposals begin their cash injection and payment in 2015 simultaneously. As the PC expects that the scheme could not start until 2017 at the earliest, cash injection and payment under PC proposal would start in 2017, having regard to its assumption;

(c) The latest 2014-based population projections and labour force projections are used;

(d) On the proposed tax contribution from employees/employers, the maximum/minimum income levels in FTU and AUP proposals, and the minimum income level in PC proposal, are updated according to the latest corresponding income levels of the MPF. The maximum income level in the PC proposal and the maximum/minimum levels of the various income categories in the Payroll Old Age Tax of the "Demo-grant" proposal are adjusted to the 2015 levels in accordance with actual inflation; and

(e) The allowance rates of the Comprehensive Social Security Assistance (CSSA) Scheme, the Old Age Living Allowance (OALA) and the Old Age Allowance (OAA) are updated to their latest applicable levels in 2015.

Updated Financial Projections of the three "Regardless of rich and poor" proposals proposed from stakeholders and the "Demo-grant" proposal

3. Following the adjustments and updates in the above paragraphs, the payment level of the three "regardless of rich or poor" proposals from stakeholders and the "Demo-grant" proposal range from $3,230 to $3,770 per month (Table 1). Tables 2A-D and Charts 1A-D set out the updated financial projections of the various proposals under their own proposed financing arrangements. According to the updated projections, the occurance of the first structural deficit and the full depletion of the fund balance following implementation would be earlier than those projected in the Report under all four proposals (Table 3).

1 Apart from the six proposals, the Public Annuity Scheme proposed by Dr C.K. Law has also been covered in the Report. That said, the research team did not render a projection for the Scheme due to the large number of hypothetical assumptions involved.

Table 1 Key parameters of the three "regardless of rich or poor" proposals proposed from stakeholders and the "Demo-grant" proposal

<table>
<tr><th rowspan="4">Proposals</th><th colspan="6">"Report" (2013 prices)</th><th colspan="6">Current update (2015 prices)</th></tr>
<tr><th rowspan="3">Year of implemen-tation</th><th rowspan="3">Monthly amount of payment</th><th colspan="4">Cash Inflow</th><th rowspan="3">Year of implemen-tation</th><th rowspan="3">Monthly amount of payment*</th><th colspan="4">Cash Inflow</th></tr>
<tr><th colspan="4">Employee/employer tax payment (percentage of the salaries)</th><th colspan="4">Employee/employer tax payment (percentage of the salaries)</th></tr>
<tr><th colspan="2">Proposals' income funded by reducing MPF contribution^</th><th colspan="2">Additional tax payment^</th><th colspan="2">Proposals' income funded by reducing MPF contribution^</th><th colspan="2">Additional tax payment^</th></tr>
<tr><td rowspan="3">FTU</td><td rowspan="3">2016</td><td rowspan="3">$3,250</td><td colspan="2">1%</td><td colspan="2">0.5%</td><td rowspan="3">2016</td><td rowspan="3">$3,500</td><td colspan="2">1%</td><td colspan="2">0.5%</td></tr>
<tr><td colspan="2">(Max. Income: $25,000; Min. Income: $6,500)</td><td colspan="2">(Max. Income: Nil.; Min. Income: $6,500)</td><td colspan="2">(Max. Income: $30,000; Min. Income: $7,100)</td><td colspan="2">(Max. Income: Nil.; Min. Income: $7,100)</td></tr>
<tr><td colspan="4">(Beginning in 2021)</td><td colspan="4">(Beginning in 2021)</td></tr>
<tr><td rowspan="2">AUP</td><td rowspan="2">2013</td><td rowspan="2">$3,422</td><td colspan="2">2.5%</td><td colspan="2" rowspan="2">N.A.</td><td rowspan="2">2015</td><td rowspan="2">$3,690</td><td colspan="2">2.5%</td><td colspan="2" rowspan="2">N.A.</td></tr>
<tr><td colspan="2">(Max. Income: $30,000; Min. Income: $6,500)</td><td colspan="2">(Max. Income: $30,000; Min. Income: $7,100)</td></tr>
<tr><td rowspan="2">PC</td><td rowspan="2">2017</td><td rowspan="2">$3,479</td><td colspan="2" rowspan="2">N.A.</td><td colspan="2">2.5%</td><td rowspan="2">2017</td><td rowspan="2">$3,770</td><td colspan="2" rowspan="2">N.A.</td><td colspan="2">2.5%</td></tr>
<tr><td colspan="2">(Max. Income: $80,000; Min. Income: $6,500)</td><td colspan="2">(Max. Income: $86,000; Min. Income: $7,100)</td></tr>
<tr><td rowspan="2">"Demo-grant"</td><td rowspan="2">2013</td><td rowspan="2">$3,000</td><td>Payroll Old Age Tax (%)</td><td>1.0</td><td>1.5</td><td>2.5</td><td rowspan="2">2015</td><td rowspan="2">$3,230</td><td>Payroll Old Age Tax (%)</td><td>1.0</td><td>1.5</td><td>2.5</td></tr>
<tr><td>Income group#</td><td>Below $10,000</td><td>$10,000 to $20,000 below</td><td>$20,000 and above</td><td>Income group#</td><td>Below $11,000</td><td>$11,000 to $22,000 below</td><td>$22,000 and above</td></tr>
</table>

Notes:
(*) Monthly amounts of payment are adjusted to 2015 prices in accordance with actual inflation.
(^) The MPF's relevant maximum and minimum monthly income levels were $25,000 and $6,500 in 2013, with the latest figures being $30,000 and $7,100 respectively. In addition, the maximum income level in the PC proposal is adjusted to 2015 prices in accordance with actual inflation.
(#) The maximum monthly relevant income level is adjusted from $120,000 (2013 prices) to 2015 prices in accordance with actual inflation; the minimum income level is adjusted based on the MPF's minimum monthly income. When the employee's monthly income is below the minimum income level, the employee is not required to pay tax, and only the employer needs to contribute.

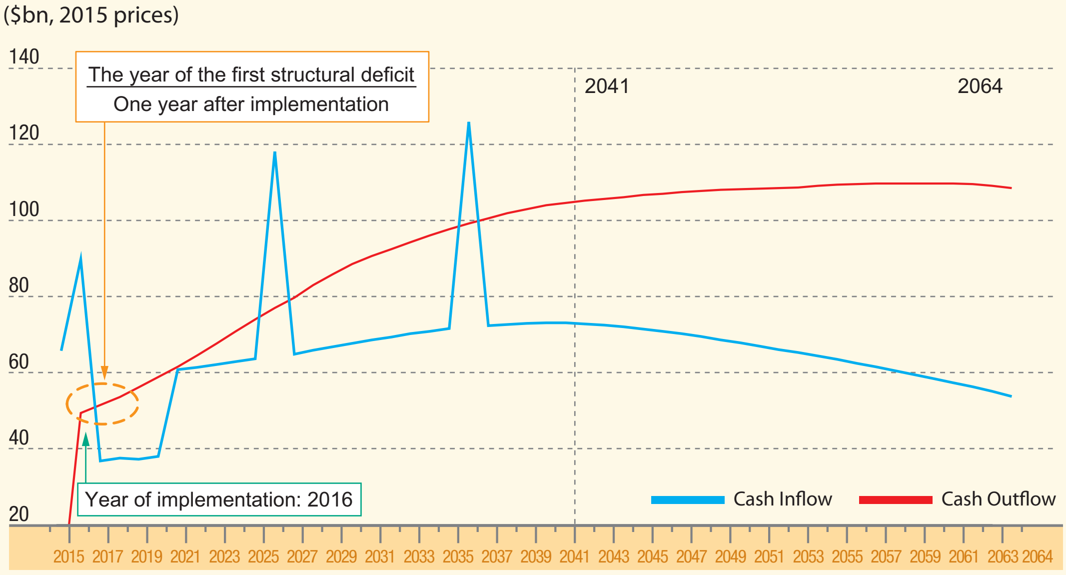
Table 2A Updated financial projections of the FTU proposal ($ bn, 2015 prices)

Year	Cash Inflow								Cash Outflow			Net inflow	Ending balance
	Gov't injected funds@		Employee/ employer tax payment*	Transfer from elderly social security*	Extra profits tax	Interest		Total	Demo grant	Admin Cost	Total		
	Amount injected	5% Gov't surplus				Land fund	Demo grant						
2015	53.8	1.6			5.92	4.5		65.8				65.8	65.8
2016	53.8	2.9		22.5	5.92	3.5	1.3	89.8	49.3	0.24	49.5	40.3	106.1
2017		3.3		23.3	5.92	2.4	2.1	37.0	51.4	0.24	51.6	-14.6	91.5
2018		3.4		24.1	5.92	2.4	1.8	37.7	53.6	0.24	53.8	-16.1	75.4
2019		2.6		25.1	5.92	2.4	1.5	37.4	56.1	0.24	56.3	-18.9	56.5
2020		2.4		26.2	5.92	2.4	1.1	38.1	58.7	0.24	58.9	-20.8	35.7
2021		2.4	22.1	27.4	5.92	2.4	0.7	60.9	61.5	0.24	61.7	-0.8	34.8
2022		1.9	22.0	28.7	5.92	2.4	0.7	61.6	64.5	0.24	64.7	-3.1	31.7
2023		1.6	21.8	30.0	5.92	2.4	0.6	62.3	67.6	0.24	67.8	-5.5	26.2
2024		1.3	21.6	31.3	5.92	2.4	0.5	63.0	70.7	0.24	70.9	-7.9	18.2
2025		0.9	21.3	32.8	5.92	2.4	0.4	63.7	73.8	0.24	74.1	-10.4	7.9
2026	53.8	0.5	21.2	34.2	5.92	2.4	0.2	118.1	76.8	0.24	77.1	41.0	48.9
2027		0.1	21.1	35.6	5.92	1.3	1.0	65.0	79.6	0.24	79.9	-14.9	34.0
2028		0.0	20.9	37.2	5.92	1.3	0.7	66.0	82.9	0.24	83.2	-17.2	16.8
2029		0.0	20.7	38.6	5.92	1.3	0.3	66.9	85.8	0.24	86.1	-19.1	-2.3
2030		0.0	20.6	40.1	5.92	1.3	0.0	67.9	88.5	0.24	88.7	-20.8	-23.1
2031		0.0	20.6	41.4	5.92	1.3	-0.5	68.7	90.6	0.24	90.9	-22.1	-45.2
2032		0.0	20.5	42.7	5.92	1.3	-0.9	69.5	92.4	0.24	92.6	-23.1	-68.4
2033		0.0	20.4	44.0	5.92	1.3	-1.4	70.3	94.2	0.24	94.4	-24.1	-92.5
2034		0.0	20.4	45.3	5.92	1.3	-1.8	71.0	95.9	0.24	96.2	-25.1	-117.6
2035		0.0	20.3	46.5	5.92	1.3	-2.4	71.7	97.6	0.24	97.8	-26.1	-143.7
2036	53.8	0.0	20.3	47.5	5.92	1.3	-2.9	126.0	99.1	0.24	99.3	26.6	-117.1
2037		0.0	20.3	48.4	5.92	0.2	-2.3	72.5	100.4	0.24	100.6	-28.1	-145.2
2038		0.0	20.3	49.3	5.92	0.2	-2.9	72.8	101.8	0.24	102.0	-29.2	-174.3
2039		0.0	20.3	50.2	5.92	0.2	-3.5	73.1	102.9	0.24	103.2	-30.1	-204.4
2040		0.0	20.2	50.9	5.92	0.2	-4.1	73.2	103.9	0.24	104.2	-31.0	-235.4
2041		0.0	20.2	51.6	5.92	0.2	-4.7	73.2	104.5	0.24	104.8	-31.6	-267.0
2042		0.0	20.2	51.9	5.92	0.2	-5.3	72.9	105.1	0.24	105.4	-32.4	-299.4
2043		0.0	20.1	52.3	5.92	0.2	-6.0	72.6	105.6	0.24	105.8	-33.2	-332.6
2044		0.0	20.1	52.6	5.92	0.2	-6.7	72.1	106.1	0.24	106.3	-34.2	-366.8
2045		0.0	20.0	52.8	5.92	0.2	-7.3	71.7	106.5	0.24	106.8	-35.1	-401.9
2046		0.0	19.9	53.0	5.92	0.2	-8.0	71.0	107.0	0.24	107.2	-36.2	-438.2
2047		0.0	19.8	53.1	5.92	0.2	-8.8	70.3	107.4	0.24	107.6	-37.3	-475.5
2048		0.0	19.7	53.2	5.92	0.2	-9.5	69.6	107.7	0.24	108.0	-38.4	-513.9
2049		0.0	19.6	53.3	5.92	0.2	-10.3	68.8	108.0	0.24	108.2	-39.4	-553.3
2050		0.0	19.5	53.4	5.92	0.2	-11.1	68.0	108.2	0.24	108.4	-40.4	-593.7
2051		0.0	19.4	53.5	5.92	0.2	-11.9	67.1	108.3	0.24	108.5	-41.4	-635.1
2052		0.0	19.3	53.5	5.92	0.2	-12.7	66.2	108.3	0.24	108.6	-42.3	-677.5
2053		0.0	19.2	53.6	5.92	0.2	-13.5	65.4	108.5	0.24	108.8	-43.4	-720.9
2054		0.0	19.1	53.7	5.92	0.2	-14.4	64.5	109.0	0.24	109.2	-44.7	-765.6
2055		0.0	19.0	53.8	5.92	0.2	-15.3	63.6	109.3	0.24	109.5	-45.9	-811.5
2056		0.0	18.8	53.9	5.92	0.2	-16.2	62.7	109.5	0.24	109.7	-47.1	-858.6
2057		0.0	18.7	53.9	5.92	0.2	-17.2	61.6	109.6	0.24	109.8	-48.2	-906.8
2058		0.0	18.6	54.0	5.92	0.2	-18.1	60.6	109.6	0.24	109.9	-49.3	-956.1
2059		0.0	18.5	54.1	5.92	0.2	-19.1	59.6	109.6	0.24	109.8	-50.2	-1,006.3
2060		0.0	18.4	54.2	5.92	0.2	-20.1	58.6	109.6	0.24	109.8	-51.2	-1,057.5
2061		0.0	18.3	54.2	5.92	0.2	-21.1	57.5	109.6	0.24	109.8	-52.3	-1,109.8
2062		0.0	18.2	54.3	5.92	0.2	-22.2	56.4	109.5	0.24	109.7	-53.3	-1,163.1
2063		0.0	18.1	54.2	5.92	0.2	-23.3	55.2	109.1	0.24	109.3	-54.1	-1,217.2
2064		0.0	18.1	54.0	5.92	0.2	-24.3	53.9	108.4	0.24	108.7	-54.8	-1,271.9

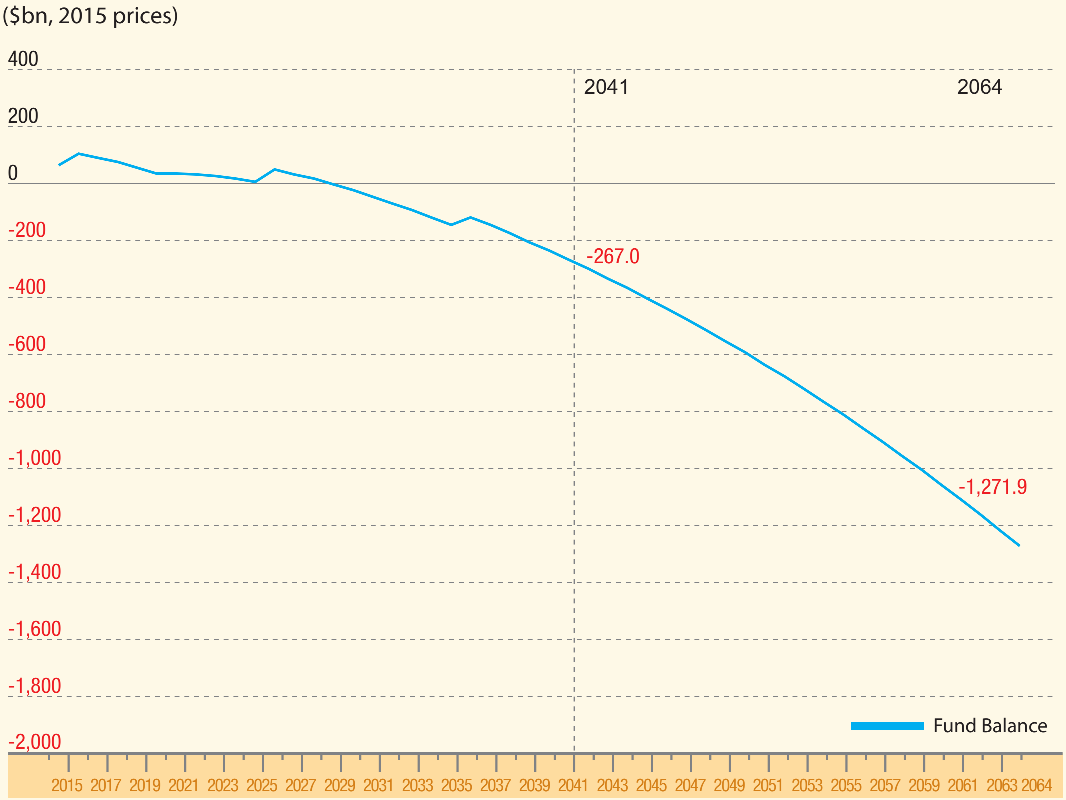
Notes: All assumptions based on the original framework of the Report, including the take-up rate assumptions of elderly social security schemes. Excluding elderly Disability Allowance, rent and other allowance in the CSSA system and Guangdong Scheme.
(@) Adjusted to 2015 prices in accordance with actual inflation.
(*) Updated based on the latest population and labour force projections. All figures are in 2015 constant prices.

Chart 1A Updated financial projections of the FTU proposal*

(i) Annual Cash flow projections



(ii) Fund balance



Notes: Excluding elderly Disability Allowance, rent and other allowance in the CSSA system and Guangdong Scheme.

(*) The updated financial projections are based on: (i) the latest population and labour force projections; (ii) the payment level and relevant income limits, updated to 2015 prices; (iii) the original financing arrangement of the FTU proposal; and (iv) all other assumptions are based on the original projection framework of the Report, including the take-up rate assumptions for the elderly social security schemes. For details, please refer to Table 2A.

Table 2B Updated financial projections of the AUP proposal ($ bn, 2015 prices)

Year	Cash Inflow						Cash Outflow			Net inflow	Ending balance
	Gov't injected fund@ / Amount injected	Employee/ employer tax payment*	Transfer from elderly social security*	Extra profits tax	Interest / Demo grant	Total	Demo grant	Admin cost	Total		
2015	53.8	34.9	20.9	11.2		120.8	49.7	0.24	50.0	70.9	70.9
2016		34.9	22.5	11.2	1.4	70.0	51.9	0.24	52.2	17.9	88.8
2017		34.9	23.3	11.2	1.8	71.2	54.2	0.24	54.4	16.8	105.5
2018		34.8	24.1	11.2	2.1	72.3	56.5	0.24	56.7	15.6	121.1
2019		34.7	25.1	11.2	2.4	73.4	59.1	0.24	59.3	14.1	135.2
2020		34.6	26.2	11.2	2.7	74.7	61.9	0.24	62.1	12.6	147.8
2021		34.4	27.4	11.2	3.0	76.0	64.8	0.24	65.1	11.0	158.8
2022		34.2	28.7	11.2	3.2	77.3	68.0	0.24	68.2	9.1	167.8
2023		33.9	30.0	11.2	3.4	78.4	71.3	0.24	71.5	6.9	174.7
2024		33.5	31.3	11.2	3.5	79.6	74.5	0.24	74.8	4.8	179.6
2025		33.2	32.8	11.2	3.6	80.8	77.9	0.24	78.1	2.7	182.3
2026		32.9	34.2	11.2	3.6	82.0	81.0	0.24	81.2	0.8	183.0
2027		32.7	35.6	11.2	3.7	83.2	84.0	0.24	84.2	-1.0	182.1
2028		32.5	37.2	11.2	3.6	84.5	87.4	0.24	87.7	-3.1	178.9
2029		32.2	38.6	11.2	3.6	85.7	90.5	0.24	90.7	-5.0	173.9
2030		32.0	40.1	11.2	3.5	86.8	93.3	0.24	93.5	-6.7	167.2
2031		31.9	41.4	11.2	3.3	87.9	95.5	0.24	95.8	-7.8	159.4
2032		31.9	42.7	11.2	3.2	89.0	97.4	0.24	97.6	-8.7	150.7
2033		31.8	44.0	11.2	3.0	90.1	99.3	0.24	99.5	-9.5	141.3
2034		31.7	45.3	11.2	2.8	91.1	101.1	0.24	101.4	-10.3	130.9
2035		31.6	46.5	11.2	2.6	92.0	102.9	0.24	103.1	-11.1	119.8
2036		31.6	47.5	11.2	2.4	92.8	104.5	0.24	104.7	-11.9	107.9
2037		31.6	48.4	11.2	2.2	93.4	105.9	0.24	106.1	-12.7	95.2
2038		31.6	49.3	11.2	1.9	94.0	107.3	0.24	107.5	-13.5	81.7
2039		31.5	50.2	11.2	1.6	94.6	108.5	0.24	108.7	-14.2	67.5
2040		31.5	50.9	11.2	1.4	95.0	109.6	0.24	109.8	-14.8	52.7
2041		31.5	51.6	11.2	1.1	95.3	110.2	0.24	110.5	-15.1	37.6
2042		31.4	51.9	11.2	0.8	95.4	110.8	0.24	111.1	-15.7	21.9
2043		31.4	52.3	11.2	0.4	95.3	111.3	0.24	111.6	-16.2	5.6
2044		31.2	52.6	11.2	0.1	95.2	111.8	0.24	112.1	-16.9	-11.3
2045		31.1	52.8	11.2	-0.2	95.0	112.3	0.24	112.6	-17.6	-28.8
2046		31.0	53.0	11.2	-0.6	94.6	112.8	0.24	113.0	-18.4	-47.2
2047		30.8	53.1	11.2	-0.9	94.3	113.2	0.24	113.5	-19.2	-66.4
2048		30.7	53.2	11.2	-1.3	93.8	113.6	0.24	113.8	-20.0	-86.4
2049		30.5	53.3	11.2	-1.7	93.3	113.8	0.24	114.1	-20.7	-107.1
2050		30.3	53.4	11.2	-2.1	92.8	114.0	0.24	114.3	-21.4	-128.6
2051		30.1	53.5	11.2	-2.6	92.3	114.2	0.24	114.4	-22.1	-150.7
2052		30.0	53.5	11.2	-3.0	91.7	114.2	0.24	114.5	-22.7	-173.4
2053		29.8	53.6	11.2	-3.5	91.2	114.4	0.24	114.7	-23.5	-196.9
2054		29.6	53.7	11.2	-3.9	90.7	114.9	0.24	115.1	-24.5	-221.4
2055		29.5	53.8	11.2	-4.4	90.1	115.2	0.24	115.5	-25.4	-246.8
2056		29.3	53.9	11.2	-4.9	89.5	115.5	0.24	115.7	-26.2	-273.0
2057		29.1	53.9	11.2	-5.5	88.8	115.6	0.24	115.8	-27.0	-300.0
2058		28.9	54.0	11.2	-6.0	88.1	115.6	0.24	115.8	-27.7	-327.7
2059		28.8	54.1	11.2	-6.6	87.5	115.5	0.24	115.8	-28.2	-356.0
2060		28.6	54.2	11.2	-7.1	86.9	115.5	0.24	115.7	-28.9	-384.8
2061		28.4	54.2	11.2	-7.7	86.2	115.5	0.24	115.8	-29.6	-414.4
2062		28.3	54.3	11.2	-8.3	85.5	115.4	0.24	115.6	-30.2	-444.5
2063		28.2	54.2	11.2	-8.9	84.7	115.0	0.24	115.2	-30.5	-475.1
2064		28.1	54.0	11.2	-9.5	83.9	114.3	0.24	114.6	-30.7	-505.8

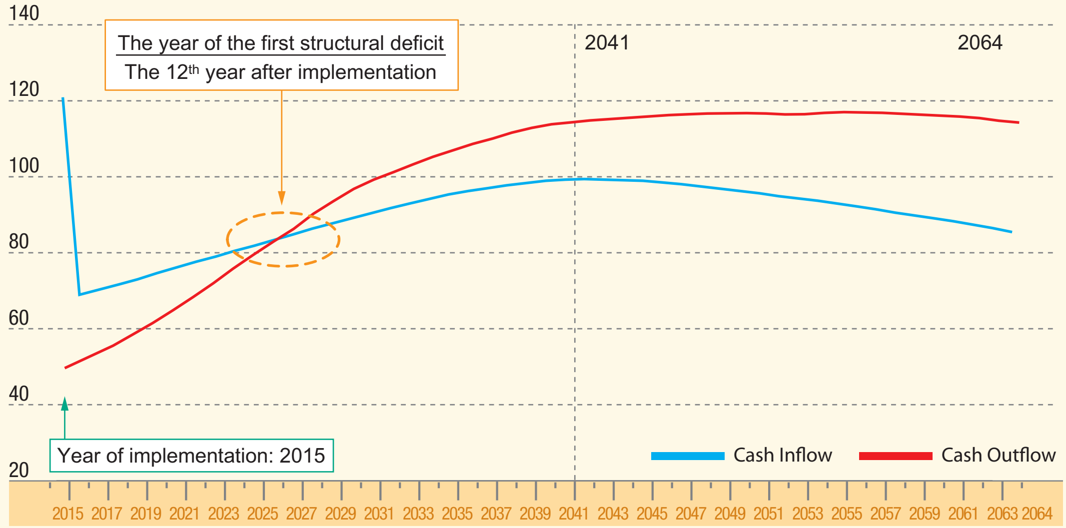
Notes: All assumptions based on the original framework of the Report, including the take-up rate assumptions of elderly social security schemes. Excluding elderly Disability Allowance, rent and other allowances in the CSSA system and Guangdong Scheme.

(@) Adjusted to 2015 prices in accordance with actual inflation.

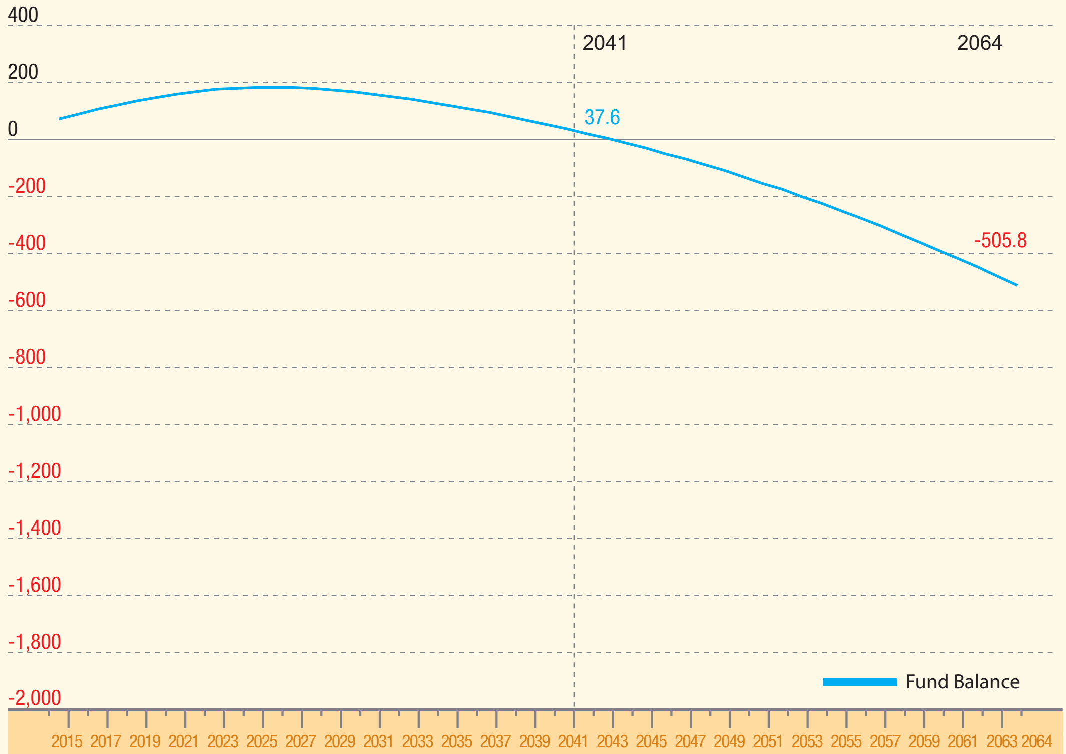
(*) Updated based on the latest population and labour force projections. All figures are in 2015 constant prices.

Chart 1B Updated financial projections of the AUP proposal*

(i) Annual Cash flow projections



(ii) Fund balance



Notes: Excluding elderly Disability Allowance, rent and other allowance in the CSSA system and Guangdong Scheme.

(*) The updated financial projections are based on: (i) the latest population and labour force projections; (ii) the payment level and relevant income limits, updated to 2015 prices; (iii) the original financing arrangement of the AUP proposal; and (iv) all other assumptions are based on the original projection framework of the Report, including the take-up rate assumptions for the elderly social security schemes. For details, please refer to table 2B.

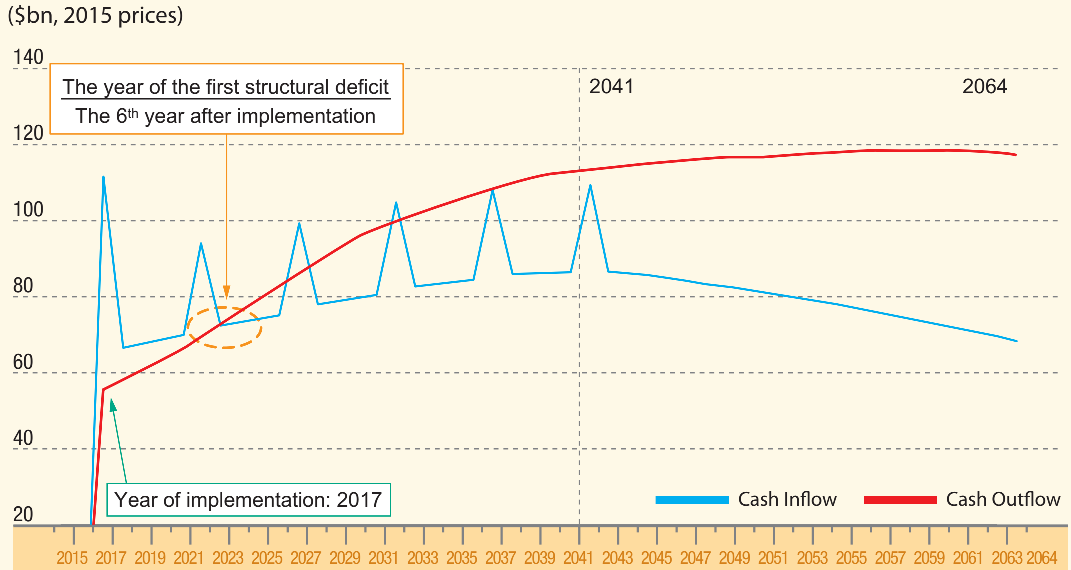
Table 2C Updated financial projections of the PC proposal ($ bn, 2015 prices)

Year	Cash Inflow					Cash Outflow			Net inflow	Ending balance
	Gov't injected fund@ Amount injected	Employee/ employer tax payment*	Transfer from elderly social security*	Interest Demo grant	Total	Demo grant	Admin cost	Total		
2015										
2016										
2017	47.1	41.2	23.3		111.5	55.3	0.24	55.6	56.0	56.0
2018		41.1	24.1	1.1	66.3	57.7	0.24	57.9	8.4	64.3
2019		40.9	25.1	1.3	67.3	60.4	0.24	60.6	6.7	71.0
2020		40.8	26.2	1.4	68.4	63.2	0.24	63.5	5.0	75.9
2021		40.6	27.4	1.5	69.6	66.3	0.24	66.5	3.1	79.0
2022	23.6	40.3	28.7	1.6	94.2	69.5	0.24	69.7	24.5	103.5
2023		40.0	30.0	2.1	72.0	72.8	0.24	73.1	-1.0	102.4
2024		39.6	31.3	2.0	73.0	76.1	0.24	76.4	-3.4	99.0
2025		39.2	32.8	2.0	74.0	79.5	0.24	79.8	-5.8	93.2
2026		39.0	34.2	1.9	75.0	82.8	0.24	83.0	-8.0	85.3
2027	23.6	38.7	35.6	1.7	99.6	85.8	0.24	86.0	13.6	98.8
2028		38.4	37.2	2.0	77.6	89.3	0.24	89.6	-12.0	86.8
2029		38.1	38.6	1.7	78.5	92.4	0.24	92.7	-14.2	72.7
2030		37.9	40.1	1.5	79.4	95.3	0.24	95.5	-16.1	56.6
2031		37.8	41.4	1.1	80.3	97.6	0.24	97.8	-17.5	39.1
2032	23.6	37.7	42.7	0.8	104.7	99.5	0.24	99.7	5.0	44.0
2033		37.6	44.0	0.9	82.5	101.5	0.24	101.7	-19.2	24.8
2034		37.4	45.3	0.5	83.2	103.3	0.24	103.6	-20.4	4.5
2035		37.3	46.5	0.1	83.9	105.1	0.24	105.3	-21.4	-17.0
2036		37.3	47.5	-0.3	84.5	106.7	0.24	107.0	-22.5	-39.5
2037	23.6	37.3	48.4	-0.8	108.5	108.2	0.24	108.4	0.1	-39.4
2038		37.2	49.3	-0.8	85.8	109.6	0.24	109.9	-24.1	-63.5
2039		37.2	50.2	-1.3	86.0	110.9	0.24	111.1	-25.1	-88.6
2040		37.1	50.9	-1.8	86.3	111.9	0.24	112.2	-25.9	-114.5
2041		37.1	51.6	-2.3	86.4	112.6	0.24	112.8	-26.5	-141.0
2042	23.6	37.1	51.9	-2.8	109.8	113.2	0.24	113.5	-3.7	-144.7
2043		37.0	52.3	-2.9	86.4	113.7	0.24	114.0	-27.6	-172.3
2044		36.8	52.6	-3.4	86.0	114.2	0.24	114.5	-28.5	-200.8
2045		36.7	52.8	-4.0	85.5	114.8	0.24	115.0	-29.5	-230.2
2046		36.5	53.0	-4.6	84.9	115.2	0.24	115.5	-30.5	-260.8
2047		36.4	53.1	-5.2	84.3	115.7	0.24	115.9	-31.6	-292.4
2048		36.2	53.2	-5.8	83.6	116.0	0.24	116.3	-32.7	-325.1
2049		36.0	53.3	-6.5	82.8	116.3	0.24	116.5	-33.7	-358.9
2050		35.8	53.4	-7.2	82.0	116.5	0.24	116.7	-34.7	-393.6
2051		35.6	53.5	-7.9	81.2	116.7	0.24	116.9	-35.7	-429.3
2052		35.4	53.5	-8.6	80.4	116.7	0.24	116.9	-36.6	-465.9
2053		35.3	53.6	-9.3	79.5	116.9	0.24	117.1	-37.6	-503.5
2054		35.1	53.7	-10.1	78.7	117.4	0.24	117.6	-38.9	-542.4
2055		34.9	53.8	-10.8	77.8	117.7	0.24	118.0	-40.1	-582.5
2056		34.6	53.9	-11.7	76.9	118.0	0.24	118.2	-41.3	-623.8
2057		34.4	53.9	-12.5	75.9	118.1	0.24	118.3	-42.4	-666.3
2058		34.2	54.0	-13.3	74.9	118.1	0.24	118.3	-43.4	-709.7
2059		34.1	54.1	-14.2	73.9	118.0	0.24	118.3	-44.3	-754.0
2060		33.9	54.2	-15.1	73.0	118.0	0.24	118.2	-45.3	-799.3
2061		33.7	54.2	-16.0	71.9	118.0	0.24	118.3	-46.4	-845.7
2062		33.5	54.3	-16.9	70.8	117.9	0.24	118.1	-47.3	-893.0
2063		33.4	54.2	-17.9	69.7	117.5	0.24	117.7	-48.1	-941.0
2064		33.3	54.0	-18.8	68.5	116.8	0.24	117.0	-48.6	-989.6

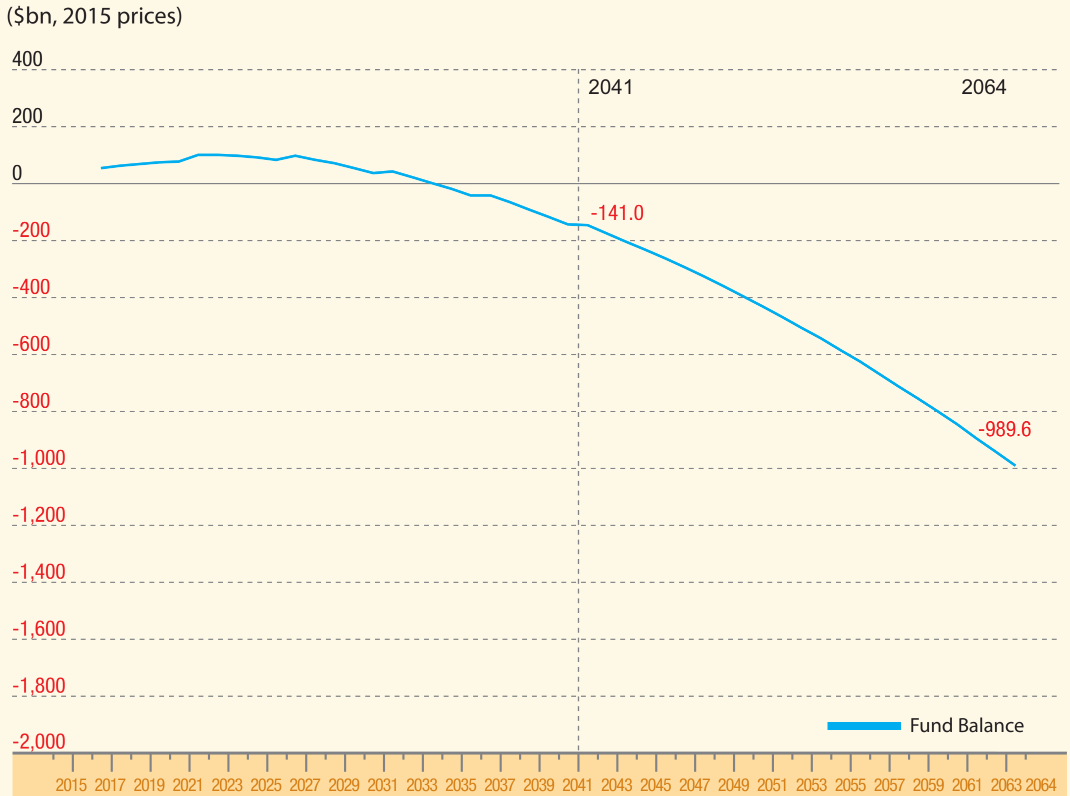
Notes: All assumptions based on the original framework of the Report, including the take-up rate assumptions of elderly social security schemes. Excluding elderly Disability Allowance, rent and other allowances in the CSSA system and Guangdong Scheme.
(@) Adjusted to 2015 prices in accordance with actual inflation.
(*) Updated based on the latest population and labour force projections. All figures are in 2015 constant prices.

Chart 1C Updated financial projections of the PC proposal*

(i) Annual Cash flow projections



(ii) Fund balance



Notes: Excluding elderly Disability Allowance, rent and other allowance in the CSSA system and Guangdong Scheme.

(*) The updated financial projections are based on: (i) the latest population and labour force projections; (ii) the payment level and relevant income limits, updated to 2015 prices; (iii) the original financing arrangement of the PC proposal; and (iv) all other assumptions are based on the original projection framework of the Report, including the take-up rate assumptions for the elderly social security schemes. For details, please refer to table 2C.

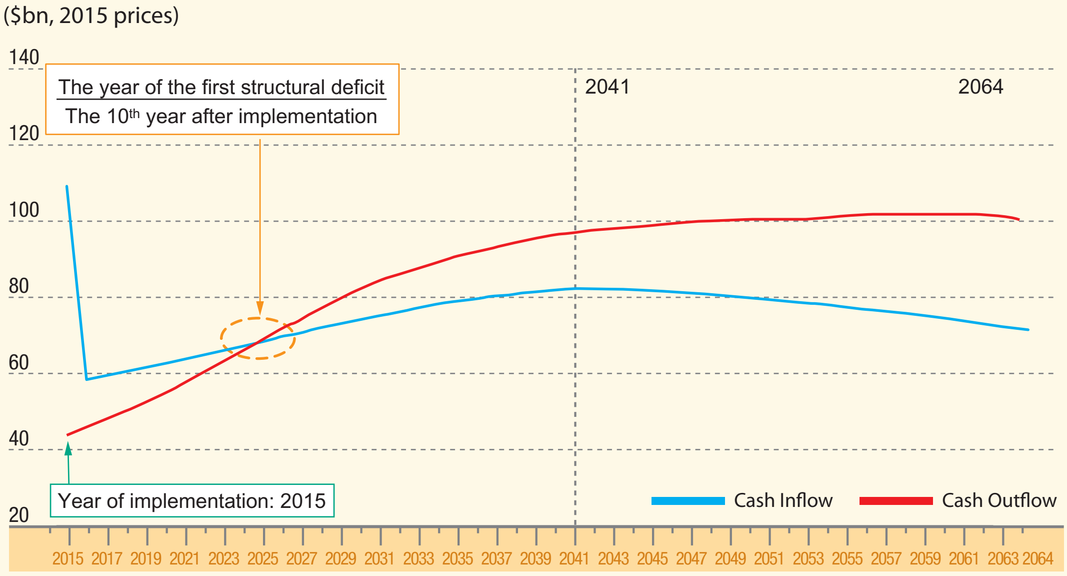
Table 2D Updated financial projections of the "Demo-grant" proposal

Year	Cash Inflow					Cash Outflow			Net inflow	Ending balance
	Gov't injected fund@ Amount injected	Employee/ employer tax payment*	Transfer from elderly social security*	Interest	Total	Demo grant	Admin Cost	Total		
2015	53.8	34.2	20.9		108.9	43.5	0.24	43.8	65.1	65.1
2016		34.2	22.5	1.3	57.9	45.5	0.24	45.7	12.2	77.3
2017		34.1	23.3	1.5	58.9	47.4	0.24	47.7	11.3	88.6
2018		34.0	24.1	1.8	59.9	49.4	0.24	49.7	10.2	98.8
2019		33.9	25.1	2.0	61.0	51.7	0.24	52.0	9.0	107.8
2020		33.8	26.2	2.2	62.2	54.2	0.24	54.4	7.8	115.6
2021		33.7	27.4	2.3	63.4	56.8	0.24	57.0	6.4	122.0
2022		33.5	28.7	2.4	64.6	59.5	0.24	59.8	4.8	126.9
2023		33.2	30.0	2.5	65.7	62.4	0.24	62.6	3.1	129.9
2024		32.9	31.3	2.6	66.8	65.2	0.24	65.5	1.3	131.2
2025		32.6	32.8	2.6	68.0	68.1	0.24	68.4	-0.4	130.8
2026		32.4	34.2	2.6	69.2	70.9	0.24	71.1	-1.9	128.9
2027		32.2	35.6	2.6	70.4	73.5	0.24	73.7	-3.4	125.5
2028		31.9	37.2	2.5	71.6	76.5	0.24	76.8	-5.1	120.4
2029		31.7	38.6	2.4	72.8	79.2	0.24	79.4	-6.7	113.7
2030		31.5	40.1	2.3	73.9	81.6	0.24	81.9	-8.0	105.7
2031		31.4	41.4	2.1	74.9	83.6	0.24	83.9	-8.9	96.8
2032		31.3	42.7	1.9	75.9	85.2	0.24	85.5	-9.6	87.2
2033		31.1	44.0	1.7	76.9	86.9	0.24	87.2	-10.2	76.9
2034		31.0	45.3	1.5	77.8	88.5	0.24	88.8	-10.9	66.0
2035		30.9	46.5	1.3	78.7	90.0	0.24	90.3	-11.6	54.4
2036		30.8	47.5	1.1	79.5	91.5	0.24	91.7	-12.2	42.2
2037		30.8	48.4	0.8	80.1	92.7	0.24	92.9	-12.8	29.3
2038		30.8	49.3	0.6	80.7	93.9	0.24	94.1	-13.5	15.8
2039		30.7	50.2	0.3	81.2	95.0	0.24	95.2	-14.0	1.8
2040		30.7	50.9	0.0	81.6	95.9	0.24	96.2	-14.5	-12.7
2041		30.7	51.6	-0.3	82.0	96.5	0.24	96.7	-14.7	-27.5
2042		30.7	51.9	-0.5	82.0	97.0	0.24	97.3	-15.2	-42.7
2043		30.6	52.3	-0.9	82.0	97.4	0.24	97.7	-15.7	-58.4
2044		30.5	52.6	-1.2	81.9	97.9	0.24	98.1	-16.3	-74.6
2045		30.3	52.8	-1.5	81.7	98.3	0.24	98.6	-16.9	-91.5
2046		30.2	53.0	-1.8	81.3	98.7	0.24	99.0	-17.6	-109.1
2047		30.0	53.1	-2.2	81.0	99.1	0.24	99.4	-18.3	-127.5
2048		29.9	53.2	-2.5	80.6	99.4	0.24	99.7	-19.1	-146.5
2049		29.8	53.3	-2.9	80.1	99.6	0.24	99.9	-19.7	-166.3
2050		29.6	53.4	-3.3	79.7	99.8	0.24	100.1	-20.4	-186.6
2051		29.5	53.5	-3.7	79.2	100.0	0.24	100.2	-21.0	-207.6
2052		29.4	53.5	-4.2	78.7	100.0	0.24	100.2	-21.5	-229.1
2053		29.3	53.6	-4.6	78.3	100.2	0.24	100.4	-22.1	-251.2
2054		29.1	53.7	-5.0	77.8	100.6	0.24	100.8	-23.0	-274.2
2055		29.0	53.8	-5.5	77.3	100.9	0.24	101.1	-23.8	-298.0
2056		28.8	53.9	-6.0	76.7	101.1	0.24	101.3	-24.6	-322.6
2057		28.6	53.9	-6.5	76.1	101.2	0.24	101.4	-25.3	-347.9
2058		28.5	54.0	-7.0	75.5	101.2	0.24	101.4	-25.9	-373.8
2059		28.3	54.1	-7.5	74.9	101.1	0.24	101.4	-26.5	-400.3
2060		28.1	54.2	-8.0	74.3	101.1	0.24	101.3	-27.0	-427.3
2061		27.9	54.2	-8.5	73.6	101.1	0.24	101.4	-27.7	-455.0
2062		27.8	54.3	-9.1	72.9	101.0	0.24	101.3	-28.3	-483.4
2063		27.7	54.2	-9.7	72.2	100.7	0.24	100.9	-28.7	-512.1
2064		27.6	54.0	-10.2	71.4	100.1	0.24	100.3	-28.9	-541.0

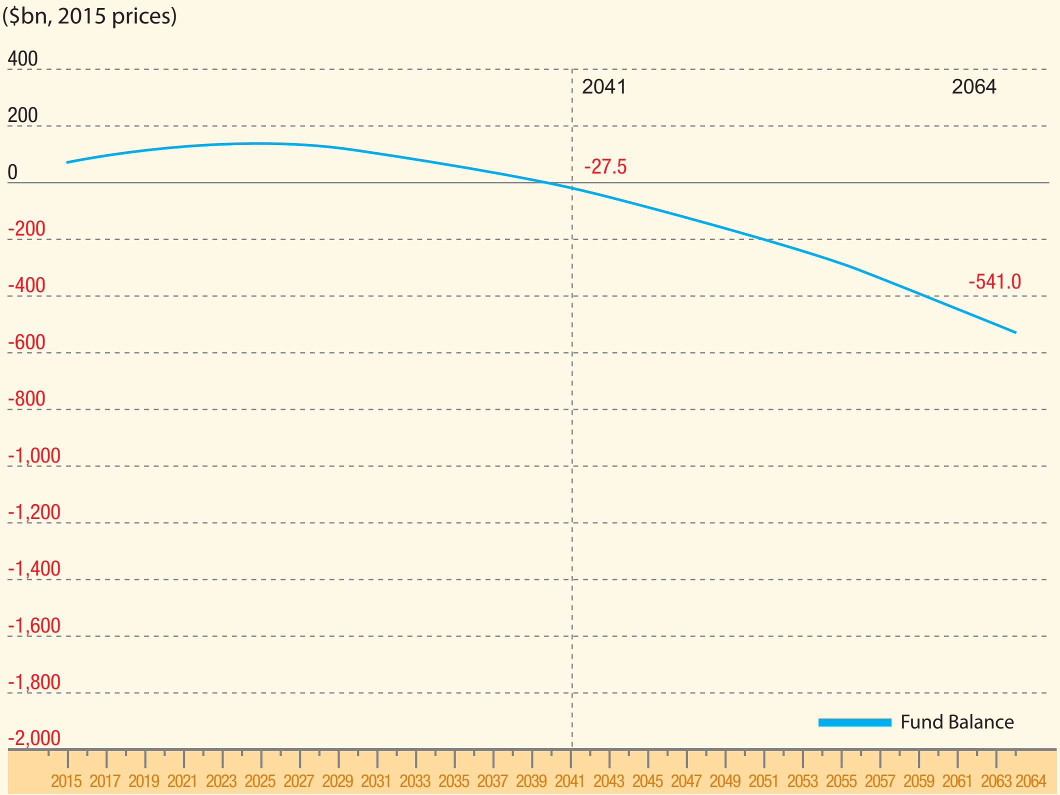
Notes: All assumptions based on the original framework of the Report, including the take-up rate assumptions of elderly social security schemes. Excluding elderly Disability Allowance, rent and other allowances in the CSSA system and Guangdong Scheme.
(@) Adjusted to 2015 prices in accordance with actual inflation.
(*) Updated based on the latest population and labour force projections. All figures are in 2015 constant prices.

Chart 1D Updated financial projections of the "Demo-grant" proposal*

(i) Annual Cash flow projections



(ii) Fund balance



Notes: Excluding elderly Disability Allowance, rent and other allowances and in the CSSA system Guangdong Scheme.

(*) The updated financial projections are based on: (i) the latest population and labour force projections; (ii) the payment level and relevant income limits, updated to 2015 prices; (iii) the original financing arrangement of the "Demo-grant" proposal; and (iv) all other assumptions are based on the original projection framework of the Report, including the take-up rate assumptions for the elderly social security schemes. For details, please refer to table 2D.

Table 3 Comparison of the financial positions of the "regardless of rich or poor" proposals in the Report and the current update

Proposals	Report (2013 constant prices)			Current update (2015 constant prices)			
	No. of years after implementation:		Accrued fund balance as at 2041	No. of years after implementation:		Accrued fund balance as at 2041	Accrued fund balance as at 2064
	First structural deficit	Depletion of the fund balance		First structural deficit	Depletion of the fund balance		
FTU	1 year	14 years	-$248.5 bn	1 year (same year)	13 years (advanced by 1 year)	-$267.0 bn	-$1,271.9 bn
AUP	15 years	Positive balance at 2041	$127.0 bn	12 years (advanced by 3 years)	29 years (–)[^]	$37.6 bn	-$505.8 bn
PC	7 years	19 years	-$116.7 bn	6 years (advanced by 1 year)	18 years (advanced by 1 year)	-$141.0 bn	-$989.6 bn
"Demo-grant"	13 years	Minimal positive balance at 2041[#]	$13.5 bn	10 years (advanced by 3 years)	25 years (advanced by 4 years)	-$27.5 bn	-$541.0 bn

Notes: (^) No comparison can be given here, because the projection period in the Report was up to 2041 only.
(#) Based on the projection results of the Report, it could be inferred that the fund of "Demo-grant" would be depleted in 2042 (i.e. the 29th year after implementation).
( ) Figures in brackets show the advancement of the timing of the first structural deficit/fund depletion in terms of number of years, as compared to the original results in the Report.

4. As exhibited in Table 3, the updated financial projections using the Report framework suggest that structural fiscal deficit is projected to kick in one year after the implementation of the FTU proposal, same as the projection in the Report; structural fiscal deficit is anticipated to surface respectively 12 years and 6 years after the launch of the AUP and PC proposals, advanced by 3 years and one year as compared with the projections in the Report; a structural fiscal deficit would strike 10 years after the launch of the "Demo-grant", 3 years earlier when compared with the projection in the Report. Amid persistent structural deficits, the updated financial projections show that the fund balances would be depleted 13 years and 18 years after the implementation of the FTU and PC proposals respectively, both advanced by 1 year when compared with the Report. The fund balance of AUP proposal would be completely depleted 29 years after implementation, and 25 years in respect of the "Demo-grant" proposal. As the negative fund balances successively enlarge in the ensuing years, the FTU, AUP, PC proposals and the "Demo-grant" proposal are projected to accumulate to negative balances at $1,271.9 billion, $505.8 billion, $989.6 billion and $541.0 billion respectively in 2064[2].

2 Another proposal with "regardless of rich or poor" nature was proposed by scholars in November 2015 and it is very similar to that of the AUP. The differences are that the scholars' proposal proposes a slightly lower retirement protection payment (scholars' proposal: $3,500; AUP's proposal: $3,690) and more fund injection from the Government (scholars' proposal: $100 billion; AUP's proposal: $53.8 billion). According to the scholars' projection, their proposals will start to have deficit by 2033 (i.e. the 17th year after implementation) and will have a net positive balance of $54.8 billion at the end of the projection period (i.e. 2064).

Updated financial analysis of the two "those with financial needs" proposals

5. As for the two "those with financial needs" proposals (DAB and NPP proposals), the asset limits and payment level of the three-tier social security system, with suitable inflation adjustments to 2015 prices, are shown in Table 4. Table 5A-B provides the updated financial projections of the DAB and NPP proposals.

Table 4 The payment rates for "those with financial needs" proposals

Proposal	Report (2013 prices)			Current update (2015 prices)		
	Year of implementation	Elderly social security scheme		Year of implementation	Elderly social security scheme	
		Payment	Amount		Payment	Amount
DAB*	2013	Tier III (Asset limit: ≤ $150,000)	$3,405	2015	Tier III (Asset limit: ≤ $150,000)	$3,660^
		Tier II (Asset limit: ≤ $300,000)	$2,270		Tier II (Asset limit: ≤ $300,000)	$2,390#
		Tier I (Asset limit: Nil.)	$1,135		Tier I (Asset limit: Nil.)	$1,235#
NPP	2013	New allowance (Asset limit: ≤ $100,000)	$3,600	2015	New allowance (Asset limit: ≤ $100,000)	$3,870^
		OALA (Asset limit ≤ $210,000)	$2,200		OALA (Asset limit ≤ $210,000)	$2,390#
		OAA (Asset limit: Nil.)	$1,135		OAA (Asset limit: Nil.)	$1,235#

Notes: The asset limits in the table are applicable to the singleton elderly.
(*) The eligibility age for Tier I, II and III allowance of the DAB proposal is age 65 or above.
(^) Adjusted to 2015 prices in accordance with actual inflation.
(#) Payment rates for OALA and OAA with effect from February 2015.

Table 5A Updated financial projections of the DAB proposal ($ bn, 2015 prices)

Year	The overall elderly social security expenditure*	DAB proposal increased expenditure	DAB proposal overall expenditure	Ratio of overall expenditure to Nominal GDP
2015	20.9	9.6	30.5	1.27%
2016	22.5	10.5	32.9	1.34%
2017	23.3	10.9	34.2	1.37%
2018	24.1	11.4	35.5	1.40%
2019	25.1	12.0	37.0	1.43%
2020	26.2	12.5	38.7	1.46%
2021	27.4	13.1	40.5	1.51%
2022	28.7	13.7	42.4	1.56%
2023	30.0	14.4	44.4	1.62%
2024	31.3	15.1	46.4	1.67%
2025	32.8	15.7	48.5	1.73%
2026	34.2	16.2	50.5	1.78%
2027	35.6	16.7	52.3	1.83%
2028	37.2	17.3	54.5	1.89%
2029	38.6	17.8	56.5	1.94%
2030	40.1	18.3	58.3	1.98%
2031	41.4	18.6	60.0	2.02%
2032	42.7	18.8	61.4	2.04%
2033	44.0	18.9	63.0	2.08%
2034	45.3	19.1	64.4	2.10%
2035	46.5	19.3	65.8	2.13%
2036	47.5	19.6	67.1	2.15%
2037	48.4	19.8	68.2	2.16%
2038	49.3	20.0	69.4	2.18%
2039	50.2	20.2	70.4	2.20%
2040	50.9	20.4	71.3	2.20%
2041	51.6	20.5	72.0	2.21%
2042	51.9	20.5	72.5	2.21%
2043	52.3	20.6	72.8	2.21%
2044	52.6	20.6	73.2	2.20%
2045	52.8	20.7	73.5	2.21%
2046	53.0	20.8	73.8	2.21%
2047	53.1	20.9	74.1	2.22%
2048	53.2	21.0	74.3	2.22%
2049	53.3	21.1	74.4	2.22%
2050	53.4	21.1	74.5	2.22%
2051	53.5	21.2	74.6	2.23%
2052	53.5	21.2	74.7	2.23%
2053	53.6	21.2	74.8	2.23%
2054	53.7	21.3	75.1	2.24%
2055	53.8	21.4	75.3	2.24%
2056	53.9	21.5	75.4	2.25%
2057	53.9	21.5	75.4	2.25%
2058	54.0	21.5	75.5	2.25%
2059	54.1	21.4	75.5	2.25%
2060	54.2	21.4	75.5	2.26%
2061	54.2	21.3	75.6	2.26%
2062	54.3	21.3	75.5	2.26%
2063	54.2	21.1	75.3	2.26%
2064	54.0	20.9	75.0	2.25%

Notes: All assumptions based on the original framework of the Report, including the take-up rate assumptions of elderly social security schemes.

(*) Excluding elderly Disability Allowance, rent and other allowances in the CSSA system and Guangdong Scheme.

Table 5B Updated financial projections of the NPP proposal ($ bn, 2015 prices)

Year	The overall elderly social security expenditure*	NPP proposal increased expenditure	NPP proposal overall expenditure	Ratio of overall expenditure to Nominal GDP
2015	20.9	4.9	25.8	1.08%
2016	22.5	5.4	27.8	1.14%
2017	23.3	5.6	28.8	1.16%
2018	24.1	5.8	29.9	1.17%
2019	25.1	6.0	31.0	1.20%
2020	26.2	6.3	32.5	1.23%
2021	27.4	6.5	34.0	1.27%
2022	28.7	6.8	35.5	1.31%
2023	30.0	7.1	37.1	1.35%
2024	31.3	7.5	38.8	1.40%
2025	32.8	7.8	40.6	1.45%
2026	34.2	8.1	42.3	1.49%
2027	35.6	8.4	44.1	1.54%
2028	37.2	8.8	46.0	1.59%
2029	38.6	9.1	47.8	1.64%
2030	40.1	9.4	49.5	1.68%
2031	41.4	9.7	51.2	1.72%
2032	42.7	10.0	52.7	1.75%
2033	44.0	10.3	54.4	1.79%
2034	45.3	10.6	55.9	1.83%
2035	46.5	10.9	57.4	1.86%
2036	47.5	11.2	58.7	1.88%
2037	48.4	11.4	59.8	1.90%
2038	49.3	11.6	60.9	1.92%
2039	50.2	11.8	62.0	1.93%
2040	50.9	12.0	62.9	1.95%
2041	51.6	12.2	63.7	1.95%
2042	51.9	12.3	64.2	1.96%
2043	52.3	12.3	64.6	1.96%
2044	52.6	12.4	65.0	1.96%
2045	52.8	12.5	65.3	1.96%
2046	53.0	12.5	65.5	1.96%
2047	53.1	12.5	65.7	1.97%
2048	53.2	12.6	65.8	1.97%
2049	53.3	12.6	65.9	1.97%
2050	53.4	12.6	66.0	1.97%
2051	53.5	12.6	66.1	1.97%
2052	53.5	12.6	66.1	1.97%
2053	53.6	12.6	66.2	1.98%
2054	53.7	12.7	66.4	1.98%
2055	53.8	12.7	66.5	1.99%
2056	53.9	12.7	66.6	1.99%
2057	53.9	12.7	66.7	1.99%
2058	54.0	12.7	66.7	1.99%
2059	54.1	12.8	66.8	1.99%
2060	54.2	12.8	66.9	2.00%
2061	54.2	12.8	67.0	2.00%
2062	54.3	12.8	67.0	2.01%
2063	54.2	12.8	66.9	2.00%
2064	54.0	12.7	66.7	2.00%

Notes: All assumptions based on the original framework of the Report, including the take-up rate assumptions of elderly social security schemes.

(*) Excluding elderly Disability Allowance, rent and other allowances in the CSSA system and Guangdong Scheme.

Updating the financial projections of various proposals under the analytical framework of the LTFP

6. As discussed in paragraph 4 of Annex 4, the major difference between the analytical frameworks under the LTFP and the Report lies in the take-up rate assumptions for elderly social security schemes, particularly the CSSA take-up rate. As the estimated expenditures on CSSA standard payment, OALA and OAA would be taken as cash inflow to fund the payment to elderly under the three "regardless of rich or poor" proposals from stakeholders and the "Demo-grant" proposal, the use of higher CSSA take-up rate assumptions in the Report may tend to overstate the financial sustainability of the proposed financing arrangement of these schemes. If the take-up rate assumptions of social security schemes under the LTFP framework are instead adopted in the projections, the financial positions of the three "regardless of rich or poor" proposals from stakeholders and the "Demo-grant" proposal would all be worse as compared to the projections using the Report framework. In any case, none of the financing arrangement proposals are found to be financially sustainable on their own for both the Report and the LTFP frameworks. Table 6A-D and Chart 2A-D present the financial projections of the three "regardless of rich or poor" proposals from stakeholders and the "Demo-grant" proposal.

7. In a similar vein, this Annex also updates the financial projections of the two "those with financial needs" proposals (DAB and NPP proposals) from stakeholders using the LTFP analytical framework. The results are summarised in Table 7A-B for comparison and reference.

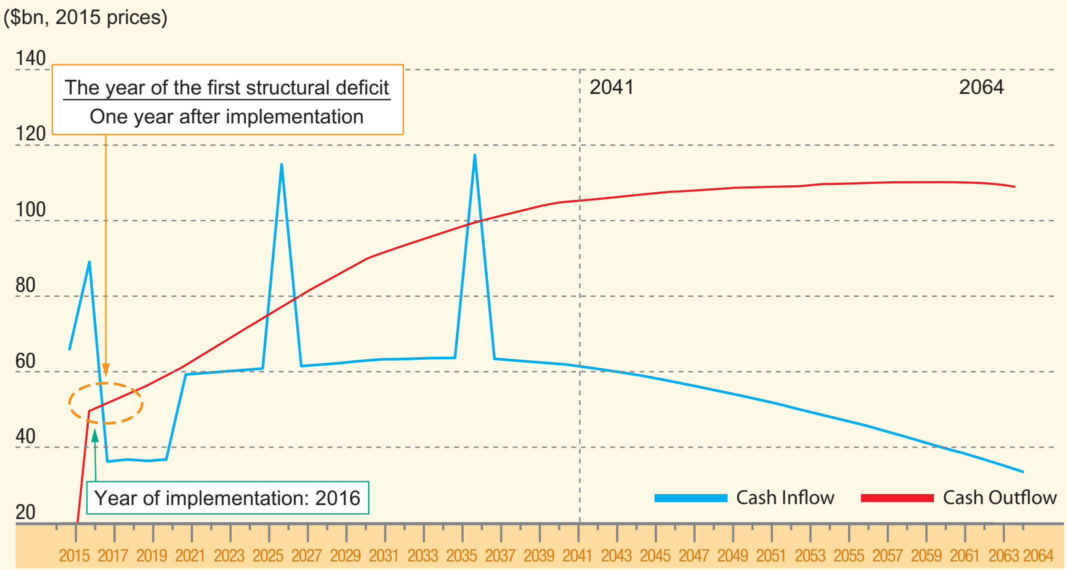
Table 6A Updated financial projections of the FTU proposal based on the LTFP framework ($ bn, 2015 prices)

Year	Cash Inflow								Cash Outflow			Net inflow	Ending balance
	Gov't injected funds[@]		Employee/ employer tax payment*	Transfer from elderly social security*	Extra profits tax	Interest		Total	Demo grant	Admin Cost	Total		
	Amount injected	5% Gov't surplus				Land fund	Demo grant						
2015	53.8	1.6			5.92	4.5		65.8				65.8	65.8
2016	53.8	2.9		21.7	5.92	3.5	1.3	89.0	49.3	0.24	49.5	39.5	105.4
2017		3.3		22.4	5.92	2.4	2.1	36.1	51.4	0.24	51.6	-15.5	89.8
2018		3.4		23.1	5.92	2.4	1.8	36.7	53.6	0.24	53.8	-17.1	72.7
2019		2.6		24.0	5.92	2.4	1.5	36.3	56.1	0.24	56.3	-20.0	52.7
2020		2.4		24.9	5.92	2.4	1.1	36.7	58.7	0.24	58.9	-22.2	30.5
2021		2.4	22.1	25.9	5.92	2.4	0.6	59.3	61.5	0.24	61.7	-2.5	28.0
2022		1.9	22.0	26.9	5.92	2.4	0.6	59.7	64.5	0.24	64.7	-5.1	22.9
2023		1.6	21.8	27.9	5.92	2.4	0.5	60.0	67.6	0.24	67.8	-7.8	15.1
2024		1.3	21.6	29.0	5.92	2.4	0.3	60.4	70.7	0.24	70.9	-10.5	4.6
2025		0.9	21.3	30.1	5.92	2.4	0.1	60.8	73.8	0.24	74.1	-13.3	-8.7
2026	53.8	0.5	21.2	31.2	5.92	2.4	-0.2	114.7	76.8	0.24	77.1	37.6	28.9
2027		0.1	21.1	32.2	5.92	1.3	0.6	61.2	79.6	0.24	79.9	-18.7	10.2
2028		0.0	20.9	33.4	5.92	1.3	0.2	61.7	82.9	0.24	83.2	-21.5	-11.2
2029		0.0	20.7	34.5	5.92	1.3	-0.2	62.2	85.8	0.24	86.1	-23.8	-35.1
2030		0.0	20.6	35.5	5.92	1.3	-0.7	62.7	88.5	0.24	88.7	-26.0	-61.1
2031		0.0	20.6	36.4	5.92	1.3	-1.2	63.0	90.6	0.24	90.9	-27.9	-89.0
2032		0.0	20.5	37.2	5.92	1.3	-1.8	63.2	92.4	0.24	92.6	-29.4	-118.4
2033		0.0	20.4	38.1	5.92	1.3	-2.4	63.4	94.2	0.24	94.4	-31.1	-149.5
2034		0.0	20.4	38.9	5.92	1.3	-3.0	63.5	95.9	0.24	96.2	-32.7	-182.2
2035		0.0	20.3	39.6	5.92	1.3	-3.6	63.5	97.6	0.24	97.8	-34.3	-216.5
2036	53.8	0.0	20.3	40.2	5.92	1.3	-4.3	117.2	99.1	0.24	99.3	17.8	-198.7
2037		0.0	20.3	40.7	5.92	0.2	-4.0	63.2	100.4	0.24	100.6	-37.5	-236.1
2038		0.0	20.3	41.2	5.92	0.2	-4.7	62.9	101.8	0.24	102.0	-39.1	-275.2
2039		0.0	20.3	41.7	5.92	0.2	-5.5	62.6	102.9	0.24	103.2	-40.6	-315.8
2040		0.0	20.2	42.1	5.92	0.2	-6.3	62.1	103.9	0.24	104.2	-42.0	-357.8
2041		0.0	20.2	42.4	5.92	0.2	-7.2	61.6	104.5	0.24	104.8	-43.2	-401.0
2042		0.0	20.2	42.6	5.92	0.2	-8.0	61.0	105.1	0.24	105.4	-44.4	-445.4
2043		0.0	20.1	42.9	5.92	0.2	-8.9	60.2	105.6	0.24	105.8	-45.6	-491.0
2044		0.0	20.1	43.1	5.92	0.2	-9.8	59.5	106.1	0.24	106.3	-46.8	-537.8
2045		0.0	20.0	43.2	5.92	0.2	-10.8	58.6	106.5	0.24	106.8	-48.2	-586.0
2046		0.0	19.9	43.3	5.92	0.2	-11.7	57.7	107.0	0.24	107.2	-49.5	-635.6
2047		0.0	19.8	43.4	5.92	0.2	-12.7	56.7	107.4	0.24	107.6	-51.0	-686.5
2048		0.0	19.7	43.5	5.92	0.2	-13.7	55.6	107.7	0.24	108.0	-52.3	-738.8
2049		0.0	19.6	43.6	5.92	0.2	-14.8	54.5	108.0	0.24	108.2	-53.7	-792.5
2050		0.0	19.5	43.6	5.92	0.2	-15.9	53.4	108.2	0.24	108.4	-55.0	-847.5
2051		0.0	19.4	43.6	5.92	0.2	-17.0	52.2	108.3	0.24	108.5	-56.3	-903.8
2052		0.0	19.3	43.7	5.92	0.2	-18.1	51.0	108.3	0.24	108.6	-57.6	-961.4
2053		0.0	19.2	43.7	5.92	0.2	-19.2	49.8	108.5	0.24	108.8	-59.0	-1,020.4
2054		0.0	19.1	43.8	5.92	0.2	-20.4	48.6	109.0	0.24	109.2	-60.6	-1,081.0
2055		0.0	19.0	43.9	5.92	0.2	-21.6	47.3	109.3	0.24	109.5	-62.2	-1,143.2
2056		0.0	18.8	43.9	5.92	0.2	-22.9	46.0	109.5	0.24	109.7	-63.8	-1,207.0
2057		0.0	18.7	43.9	5.92	0.2	-24.1	44.6	109.6	0.24	109.8	-65.2	-1,272.2
2058		0.0	18.6	43.9	5.92	0.2	-25.4	43.2	109.6	0.24	109.9	-66.7	-1,338.9
2059		0.0	18.5	43.9	5.92	0.2	-26.8	41.8	109.6	0.24	109.8	-68.0	-1,406.9
2060		0.0	18.4	43.9	5.92	0.2	-28.1	40.4	109.6	0.24	109.8	-69.4	-1,476.3
2061		0.0	18.3	44.0	5.92	0.2	-29.5	38.9	109.6	0.24	109.8	-70.9	-1,547.2
2062		0.0	18.2	44.0	5.92	0.2	-30.9	37.3	109.5	0.24	109.7	-72.3	-1,619.6
2063		0.0	18.1	43.9	5.92	0.2	-32.4	35.7	109.1	0.24	109.3	-73.6	-1,693.1
2064		0.0	18.1	43.7	5.92	0.2	-33.9	34.1	108.4	0.24	108.7	-74.6	-1,767.7

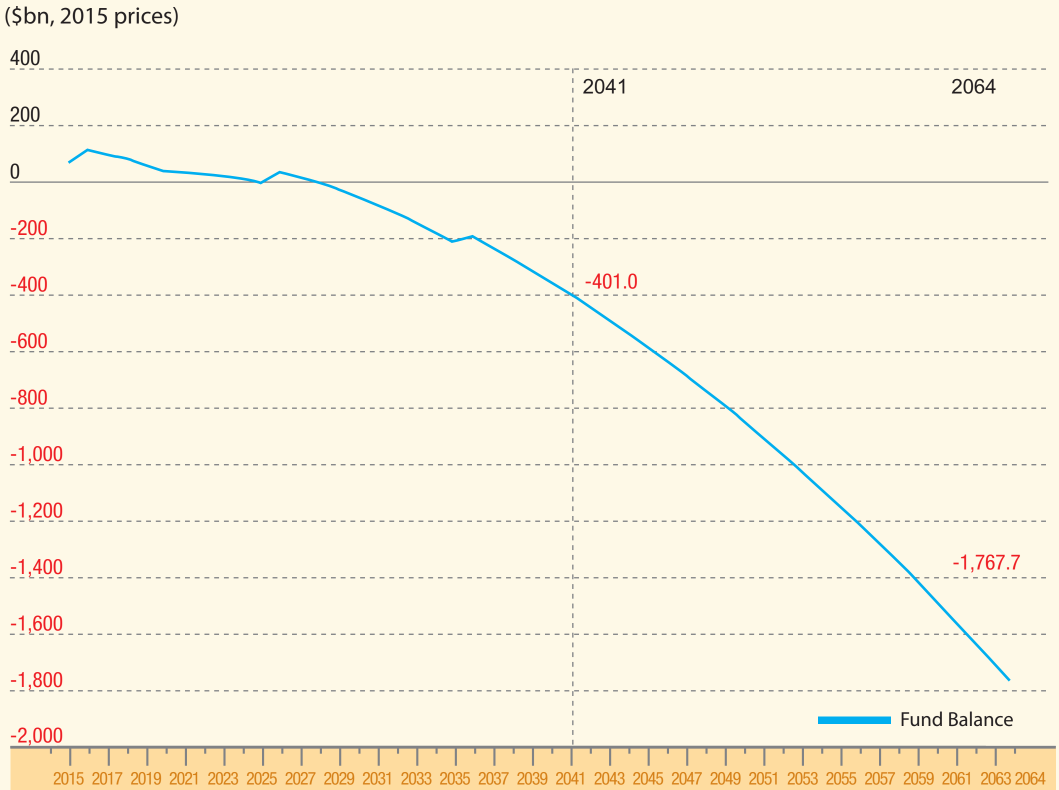
Notes: The social security take-up rate assumptions are based on those as adopted in the LTFP framework (for details, please see paragraph 4 of Annex 4), whilst all other assumptions follow the original projection framework of the Report.
Excluding elderly Disability Allowance, rent and other allowances in the CSSA system and Guangdong Scheme.
(@) Adjusted to 2015 prices in accordance with actual inflation.
(*) Updated based on the latest population and labour force projections. All figures are in 2015 constant prices.

Chart 2A Updated financial projections of the FTU proposal based on the LTFP framework*

(i) Annual Cash flow projections



(ii) Fund balance



Notes: Excluding elderly Disability Allowance, rent and other allowance in the CSSA system and Guangdong Scheme.

(*) The updated financial projections are based on: (i) the latest population and labour force projections; (ii) the payment level and relevant income limits, updated to 2015 prices; (iii) the original financing arrangement of the FTU proposal; and (iv) the take-up rate assumptions for the elderly social security schemes are based on those as adopted in the LTFP framework, with all other assumptions follow the original framework of the Report. For details, please refer to table 6A.

Table 6B Updated financial projections of the AUP proposal based on the LTFP framework ($ bn, 2015 prices)

Year	Cash Inflow						Cash Outflow			Net inflow	Ending balance
	Gov't injected fund@ Amount injected	Employee/ employer tax payment*	Transfer from elderly social security*	Extra profits tax	Interest Demo grant	Total	Demo grant	Admin cost	Total		
2015	53.8	34.9	20.9	11.2		120.8	49.7	0.24	50.0	70.9	70.9
2016		34.9	21.7	11.2	1.4	69.2	51.9	0.24	52.2	17.1	88.0
2017		34.9	22.4	11.2	1.8	70.3	54.2	0.24	54.4	15.9	103.8
2018		34.8	23.1	11.2	2.1	71.3	56.5	0.24	56.7	14.6	118.4
2019		34.7	24.0	11.2	2.4	72.3	59.1	0.24	59.3	13.0	131.4
2020		34.6	24.9	11.2	2.6	73.4	61.9	0.24	62.1	11.2	142.6
2021		34.4	25.9	11.2	2.9	74.4	64.8	0.24	65.1	9.3	151.9
2022		34.2	26.9	11.2	3.0	75.3	68.0	0.24	68.2	7.1	159.0
2023		33.9	27.9	11.2	3.2	76.2	71.3	0.24	71.5	4.7	163.7
2024		33.5	29.0	11.2	3.3	77.0	74.5	0.24	74.8	2.2	165.9
2025		33.2	30.1	11.2	3.3	77.8	77.9	0.24	78.1	-0.3	165.7
2026		32.9	31.2	11.2	3.3	78.7	81.0	0.24	81.2	-2.6	163.1
2027		32.7	32.2	11.2	3.3	79.4	84.0	0.24	84.2	-4.8	158.3
2028		32.5	33.4	11.2	3.2	80.3	87.4	0.24	87.7	-7.4	150.9
2029		32.2	34.5	11.2	3.0	81.0	90.5	0.24	90.7	-9.8	141.1
2030		32.0	35.5	11.2	2.8	81.6	93.3	0.24	93.5	-11.9	129.2
2031		31.9	36.4	11.2	2.6	82.2	95.5	0.24	95.8	-13.6	115.7
2032		31.9	37.2	11.2	2.3	82.6	97.4	0.24	97.6	-15.0	100.7
2033		31.8	38.1	11.2	2.0	83.1	99.3	0.24	99.5	-16.4	84.2
2034		31.7	38.9	11.2	1.7	83.5	101.1	0.24	101.4	-17.9	66.3
2035		31.6	39.6	11.2	1.3	83.8	102.9	0.24	103.1	-19.3	47.0
2036		31.6	40.2	11.2	0.9	84.0	104.5	0.24	104.7	-20.7	26.3
2037		31.6	40.7	11.2	0.5	84.1	105.9	0.24	106.1	-22.0	4.3
2038		31.6	41.2	11.2	0.1	84.1	107.3	0.24	107.5	-23.4	-19.1
2039		31.5	41.7	11.2	-0.4	84.1	108.5	0.24	108.7	-24.7	-43.8
2040		31.5	42.1	11.2	-0.9	83.9	109.6	0.24	109.8	-25.9	-69.7
2041		31.5	42.4	11.2	-1.4	83.7	110.2	0.24	110.5	-26.8	-96.4
2042		31.4	42.6	11.2	-1.9	83.4	110.8	0.24	111.1	-27.7	-124.1
2043		31.4	42.9	11.2	-2.5	83.0	111.3	0.24	111.6	-28.6	-152.7
2044		31.2	43.1	11.2	-3.1	82.5	111.8	0.24	112.1	-29.6	-182.3
2045		31.1	43.2	11.2	-3.6	82.0	112.3	0.24	112.6	-30.6	-212.9
2046		31.0	43.3	11.2	-4.3	81.3	112.8	0.24	113.0	-31.7	-244.6
2047		30.8	43.4	11.2	-4.9	80.6	113.2	0.24	113.5	-32.8	-277.4
2048		30.7	43.5	11.2	-5.5	79.9	113.6	0.24	113.8	-33.9	-311.4
2049		30.5	43.6	11.2	-6.2	79.1	113.8	0.24	114.1	-35.0	-346.4
2050		30.3	43.6	11.2	-6.9	78.3	114.0	0.24	114.3	-36.0	-382.4
2051		30.1	43.6	11.2	-7.6	77.4	114.2	0.24	114.4	-37.0	-419.4
2052		30.0	43.7	11.2	-8.4	76.5	114.2	0.24	114.5	-38.0	-457.4
2053		29.8	43.7	11.2	-9.1	75.6	114.4	0.24	114.7	-39.1	-496.4
2054		29.6	43.8	11.2	-9.9	74.7	114.9	0.24	115.1	-40.4	-536.8
2055		29.5	43.9	11.2	-10.7	73.8	115.2	0.24	115.5	-41.7	-578.5
2056		29.3	43.9	11.2	-11.6	72.8	115.5	0.24	115.7	-42.9	-621.4
2057		29.1	43.9	11.2	-12.4	71.8	115.6	0.24	115.8	-44.0	-665.4
2058		28.9	43.9	11.2	-13.3	70.7	115.6	0.24	115.8	-45.1	-710.5
2059		28.8	43.9	11.2	-14.2	69.7	115.5	0.24	115.8	-46.0	-756.5
2060		28.6	43.9	11.2	-15.1	68.7	115.5	0.24	115.7	-47.1	-803.6
2061		28.4	44.0	11.2	-16.1	67.6	115.5	0.24	115.8	-48.2	-851.8
2062		28.3	44.0	11.2	-17.0	66.4	115.4	0.24	115.6	-49.2	-901.1
2063		28.2	43.9	11.2	-18.0	65.2	115.0	0.24	115.2	-50.0	-951.0
2064		28.1	43.7	11.2	-19.0	64.0	114.3	0.24	114.6	-50.5	-1,001.6

Notes: The social security take-up rate assumptions are based on those as adopted in the LTFP framework (for details, please see paragraph 4 of Annex 4), whilst all other assumptions follow the original projection framework of the Report.

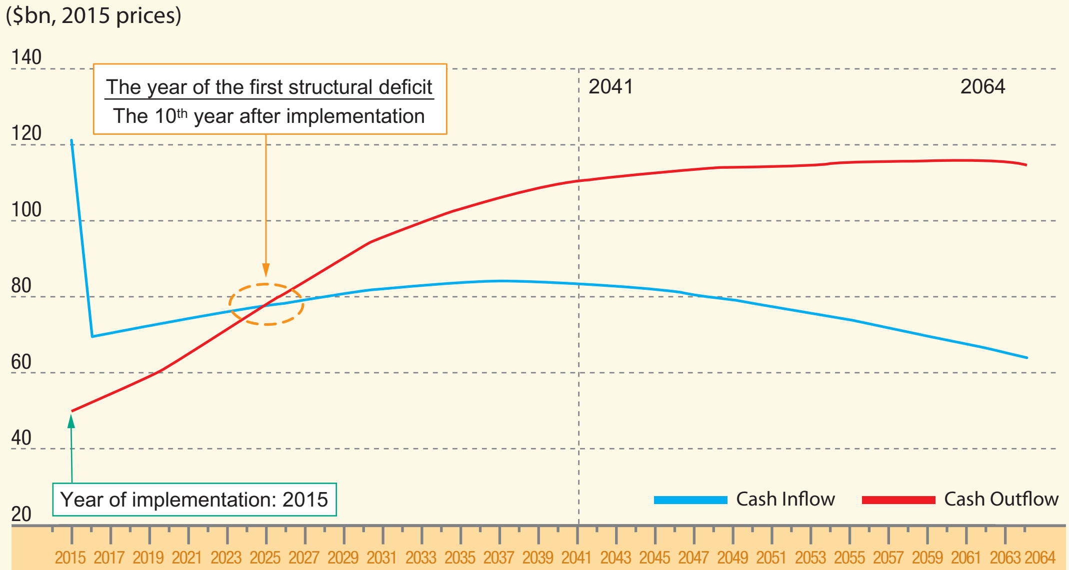
Excluding elderly Disability Allowance, rent and other allowances in the CSSA system and Guangdong Scheme.

(@) Adjusted to 2015 prices in accordance with actual inflation.

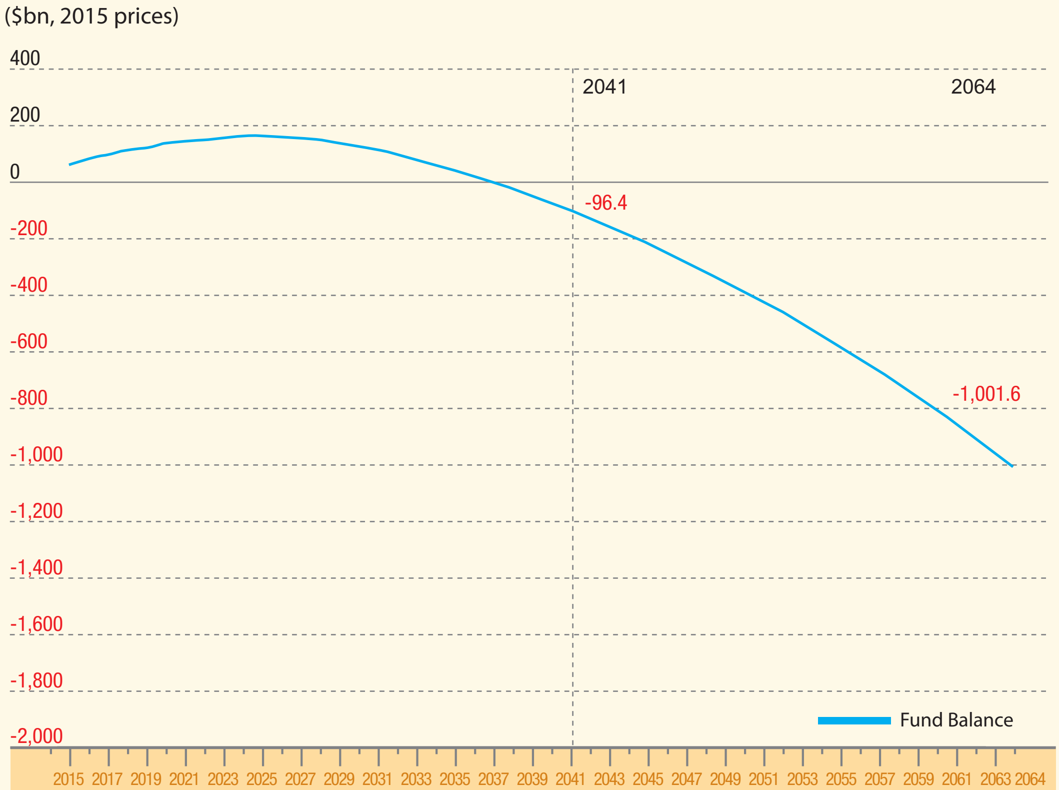
(*) Updated based on the latest population and labour force projections. All figures are in 2015 constant prices.

Chart 2B Updated financial projections of the AUP proposal based on the LTFP framework*

(i) Annual Cash flow projections



(ii) Fund balance



Notes: Excluding elderly Disability Allowance, rent and other allowance in the CSSA system and Guangdong Scheme.

(*) The updated financial projections are based on: (i) the latest population and labour force projections; (ii) the payment level and relevant income limits, updated to 2015 prices; (iii) the original financing arrangement of the AUP proposal; and (iv) adopting the take-up rate assumptions for the elderly social security schemes are based on those as adopted in the LTFP framework, with all other assumptions follow the original framework of the Report. For details, please refer to table 6B.

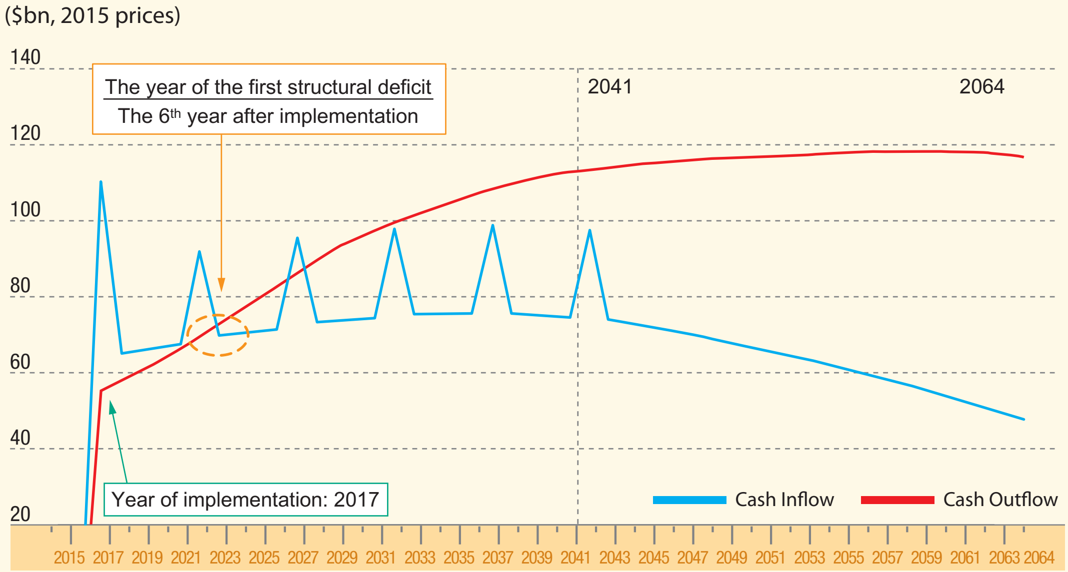
Table 6C Updated financial projections of the PC proposal based on the LTFP framework ($ bn, 2015 prices)

Year	Cash Inflow					Cash Outflow			Net inflow	Ending balance
	Gov't injected fund@ Amount injected	Employee/ employer tax payment*	Transfer from elderly social security*	Interest Demo grant	Total	Demo grant	Admin cost	Total		
2015										
2016										
2017	47.1	41.2	22.4		110.7	55.3	0.24	55.6	55.1	55.1
2018		41.1	23.1	1.1	65.3	57.7	0.24	57.9	7.4	62.5
2019		40.9	24.0	1.2	66.2	60.4	0.24	60.6	5.6	68.0
2020		40.8	24.9	1.4	67.1	63.2	0.24	63.5	3.6	71.6
2021		40.6	25.9	1.4	67.9	66.3	0.24	66.5	1.4	73.0
2022	23.6	40.3	26.9	1.5	92.3	69.5	0.24	69.7	22.5	95.6
2023		40.0	27.9	1.9	69.8	72.8	0.24	73.1	-3.3	92.3
2024		39.6	29.0	1.8	70.4	76.1	0.24	76.4	-6.0	86.4
2025		39.2	30.1	1.7	71.0	79.5	0.24	79.8	-8.8	77.6
2026		39.0	31.2	1.6	71.7	82.8	0.24	83.0	-11.3	66.3
2027	23.6	38.7	32.2	1.3	95.8	85.8	0.24	86.0	9.8	76.0
2028		38.4	33.4	1.5	73.3	89.3	0.24	89.6	-16.2	59.8
2029		38.1	34.5	1.2	73.8	92.4	0.24	92.7	-18.9	40.9
2030		37.9	35.5	0.8	74.2	95.3	0.24	95.5	-21.3	19.7
2031		37.8	36.4	0.4	74.6	97.6	0.24	97.8	-23.2	-3.6
2032	23.6	37.7	37.2	-0.1	98.4	99.5	0.24	99.7	-1.3	-4.9
2033		37.6	38.1	-0.1	75.5	101.5	0.24	101.7	-26.2	-31.1
2034		37.4	38.9	-0.6	75.7	103.3	0.24	103.6	-27.9	-59.0
2035		37.3	39.6	-1.2	75.7	105.1	0.24	105.3	-29.6	-88.6
2036		37.3	40.2	-1.8	75.7	106.7	0.24	107.0	-31.3	-119.9
2037	23.6	37.3	40.7	-2.4	99.1	108.2	0.24	108.4	-9.2	-129.1
2038		37.2	41.2	-2.6	75.9	109.6	0.24	109.9	-34.0	-163.1
2039		37.2	41.7	-3.3	75.6	110.9	0.24	111.1	-35.5	-198.7
2040		37.1	42.1	-4.0	75.2	111.9	0.24	112.2	-37.0	-235.6
2041		37.1	42.4	-4.7	74.8	112.6	0.24	112.8	-38.1	-273.7
2042	23.6	37.1	42.6	-5.5	97.8	113.2	0.24	113.5	-15.7	-289.3
2043		37.0	42.9	-5.8	74.0	113.7	0.24	114.0	-39.9	-329.3
2044		36.8	43.1	-6.6	73.3	114.2	0.24	114.5	-41.2	-370.4
2045		36.7	43.2	-7.4	72.5	114.8	0.24	115.0	-42.5	-412.9
2046		36.5	43.3	-8.3	71.6	115.2	0.24	115.5	-43.8	-456.8
2047		36.4	43.4	-9.1	70.7	115.7	0.24	115.9	-45.3	-502.0
2048		36.2	43.5	-10.0	69.6	116.0	0.24	116.3	-46.6	-548.6
2049		36.0	43.6	-11.0	68.6	116.3	0.24	116.5	-47.9	-596.6
2050		35.8	43.6	-11.9	67.5	116.5	0.24	116.7	-49.3	-645.9
2051		35.6	43.6	-12.9	66.3	116.7	0.24	116.9	-50.6	-696.4
2052		35.4	43.7	-13.9	65.2	116.7	0.24	116.9	-51.8	-748.2
2053		35.3	43.7	-15.0	64.0	116.9	0.24	117.1	-53.1	-801.3
2054		35.1	43.8	-16.0	62.8	117.4	0.24	117.6	-54.8	-856.1
2055		34.9	43.9	-17.1	61.6	117.7	0.24	118.0	-56.4	-912.5
2056		34.6	43.9	-18.3	60.3	118.0	0.24	118.2	-57.9	-970.5
2057		34.4	43.9	-19.4	58.9	118.1	0.24	118.3	-59.4	-1,029.9
2058		34.2	43.9	-20.6	57.5	118.1	0.24	118.3	-60.8	-1,090.6
2059		34.1	43.9	-21.8	56.2	118.0	0.24	118.3	-62.1	-1,152.7
2060		33.9	43.9	-23.1	54.8	118.0	0.24	118.2	-63.5	-1,216.2
2061		33.7	44.0	-24.3	53.3	118.0	0.24	118.3	-65.0	-1,281.2
2062		33.5	44.0	-25.6	51.8	117.9	0.24	118.1	-66.3	-1,347.5
2063		33.4	43.9	-27.0	50.3	117.5	0.24	117.7	-67.5	-1,415.0
2064		33.3	43.7	-28.3	48.7	116.8	0.24	117.0	-68.4	-1,483.3

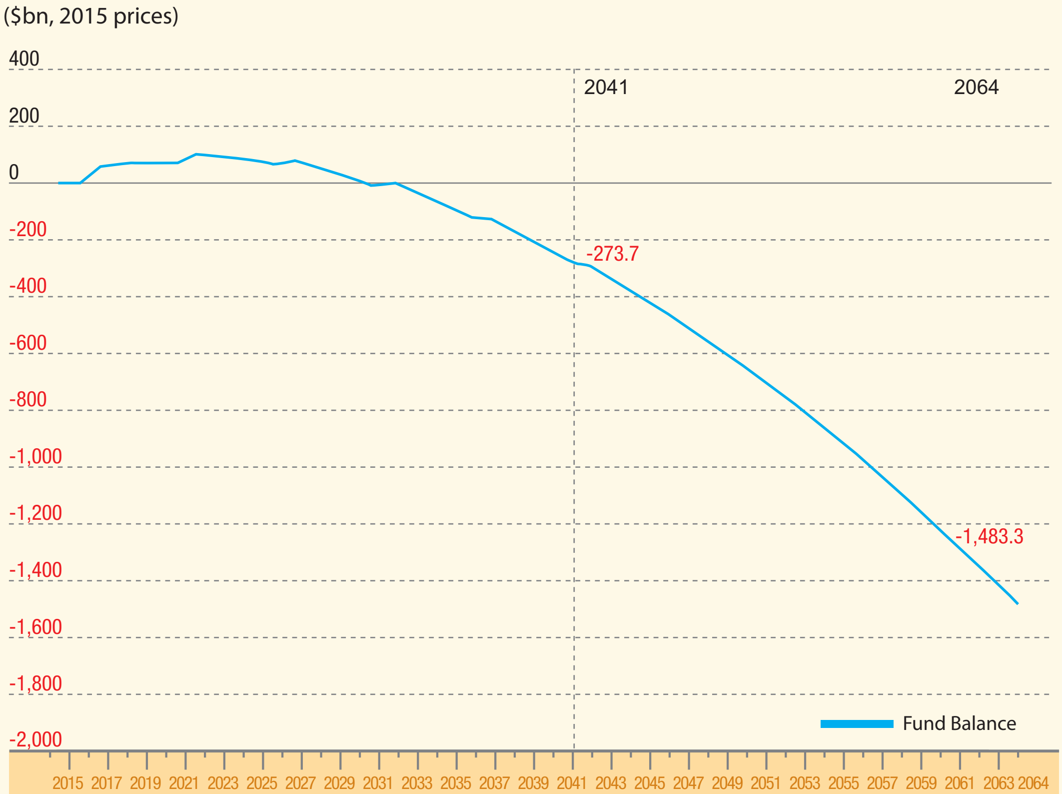
Notes: The social security take-up rate assumptions are based on those as adopted in the LTFP framework (for details, please see paragraph 4 of Annex 4), whilst all other assumptions follow the original projection framework of the Report.
Excluding elderly Disability Allowance, rent and other allowances in the CSSA system and Guangdong Scheme.
(@) Adjusted to 2015 prices in accordance with actual inflation.
(*) Updated based on the latest population and labour force projections. All figures are in 2015 constant prices.

Chart 2C Updated financial projections of the PC proposal based on the LTFP framework*

(i) Annual Cash flow projections



(ii) Fund balance



Notes: Excluding elderly Disability Allowance, rent and other allowances in the CSSA system and Guangdong Scheme.

(*) The updated financial projections are based on: (i) the latest population and labour force projections; (ii) the payment level and relevant income limits, updated to 2015 prices; (iii) the original financing arrangement of the PC proposal; and (iv) adopting the take-up rate assumptions for the elderly social security schemes are based on those as adopted in the LTFP framework, with all other assumptions follow the original framework of the Report. For details, please refer to table 6C.

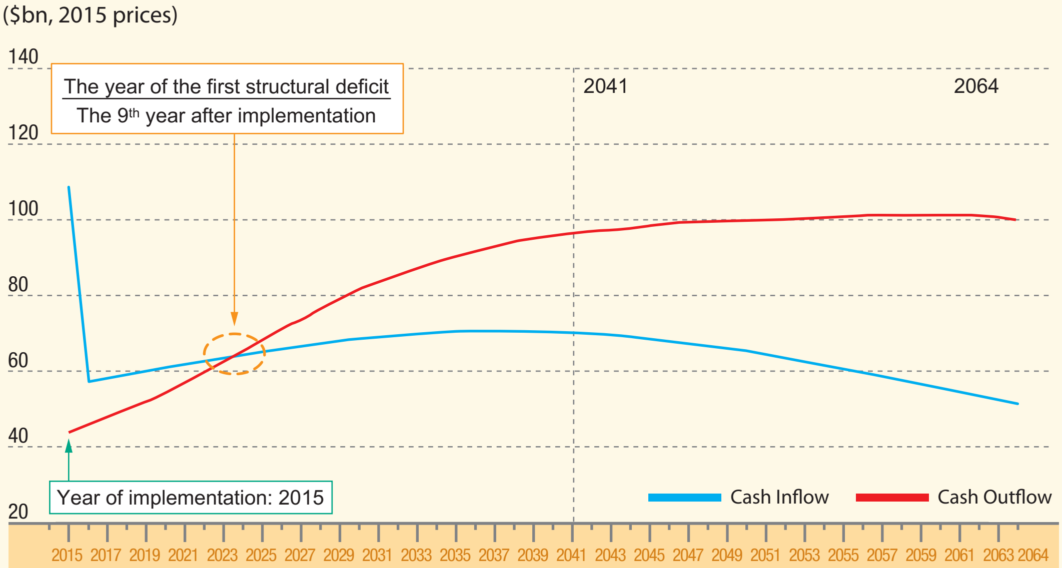
Table 6D Updated financial projections of the "Demo-grant" proposal based on the LTFP framework ($ bn, 2015 prices)

Year	Cash Outflow					Cash Inflow			Net inflow	Ending balance
	Gov't injected fund@ Amount injected	Employee/ employer tax payment*	Transfer from elderly social security*	Interest	Total	Demo grant	Admin Cost	Total		
2015	53.8	34.2	20.9		108.9	43.5	0.24	43.8	65.1	65.1
2016		34.2	21.7	1.3	57.1	45.5	0.24	45.7	11.4	76.5
2017		34.1	22.4	1.5	58.0	47.4	0.24	47.7	10.4	86.9
2018		34.0	23.1	1.7	58.9	49.4	0.24	49.7	9.2	96.2
2019		33.9	24.0	1.9	59.8	51.7	0.24	52.0	7.9	104.0
2020		33.8	24.9	2.1	60.8	54.2	0.24	54.4	6.4	110.4
2021		33.7	25.9	2.2	61.8	56.8	0.24	57.0	4.8	115.2
2022		33.5	26.9	2.3	62.6	59.5	0.24	59.8	2.9	118.1
2023		33.2	27.9	2.4	63.4	62.4	0.24	62.6	0.8	118.9
2024		32.9	29.0	2.4	64.2	65.2	0.24	65.5	-1.3	117.6
2025		32.6	30.1	2.4	65.0	68.1	0.24	68.4	-3.4	114.2
2026		32.4	31.2	2.3	65.8	70.9	0.24	71.1	-5.3	108.9
2027		32.2	32.2	2.2	66.6	73.5	0.24	73.7	-7.2	101.7
2028		31.9	33.4	2.0	67.4	76.5	0.24	76.8	-9.4	92.3
2029		31.7	34.5	1.8	68.1	79.2	0.24	79.4	-11.4	80.9
2030		31.5	35.5	1.6	68.7	81.6	0.24	81.9	-13.2	67.7
2031		31.4	36.4	1.4	69.2	83.6	0.24	83.9	-14.7	53.0
2032		31.3	37.2	1.1	69.6	85.2	0.24	85.5	-15.9	37.1
2033		31.1	38.1	0.7	70.0	86.9	0.24	87.2	-17.2	19.9
2034		31.0	38.9	0.4	70.3	88.5	0.24	88.8	-18.5	1.4
2035		30.9	39.6	0.0	70.5	90.0	0.24	90.3	-19.8	-18.4
2036		30.8	40.2	-0.4	70.7	91.5	0.24	91.7	-21.0	-39.4
2037		30.8	40.7	-0.8	70.7	92.7	0.24	92.9	-22.2	-61.6
2038		30.8	41.2	-1.2	70.7	93.9	0.24	94.1	-23.4	-85.0
2039		30.7	41.7	-1.7	70.7	95.0	0.24	95.2	-24.5	-109.6
2040		30.7	42.1	-2.2	70.6	95.9	0.24	96.2	-25.6	-135.2
2041		30.7	42.4	-2.7	70.4	96.5	0.24	96.7	-26.4	-161.5
2042		30.7	42.6	-3.2	70.1	97.0	0.24	97.3	-27.2	-188.7
2043		30.6	42.9	-3.8	69.6	97.4	0.24	97.7	-28.0	-216.7
2044		30.5	43.1	-4.3	69.2	97.9	0.24	98.1	-28.9	-245.7
2045		30.3	43.2	-4.9	68.7	98.3	0.24	98.6	-29.9	-275.6
2046		30.2	43.3	-5.5	68.0	98.7	0.24	99.0	-30.9	-306.5
2047		30.0	43.4	-6.1	67.4	99.1	0.24	99.4	-32.0	-338.5
2048		29.9	43.5	-6.8	66.6	99.4	0.24	99.7	-33.0	-371.5
2049		29.8	43.6	-7.4	65.9	99.6	0.24	99.9	-34.0	-405.5
2050		29.6	43.6	-8.1	65.1	99.8	0.24	100.1	-34.9	-440.4
2051		29.5	43.6	-8.8	64.3	100.0	0.24	100.2	-35.9	-476.3
2052		29.4	43.7	-9.5	63.5	100.0	0.24	100.2	-36.7	-513.0
2053		29.3	43.7	-10.3	62.7	100.2	0.24	100.4	-37.7	-550.7
2054		29.1	43.8	-11.0	61.9	100.6	0.24	100.8	-38.9	-589.6
2055		29.0	43.9	-11.8	61.0	100.9	0.24	101.1	-40.1	-629.7
2056		28.8	43.9	-12.6	60.1	101.1	0.24	101.3	-41.2	-671.0
2057		28.6	43.9	-13.4	59.1	101.2	0.24	101.4	-42.3	-713.3
2058		28.5	43.9	-14.3	58.1	101.2	0.24	101.4	-43.3	-756.6
2059		28.3	43.9	-15.1	57.1	101.1	0.24	101.4	-44.3	-800.9
2060		28.1	43.9	-16.0	56.1	101.1	0.24	101.3	-45.3	-846.1
2061		27.9	44.0	-16.9	55.0	101.1	0.24	101.4	-46.4	-892.5
2062		27.8	44.0	-17.9	53.9	101.0	0.24	101.3	-47.4	-939.9
2063		27.7	43.9	-18.8	52.7	100.7	0.24	100.9	-48.2	-988.0
2064		27.6	43.7	-19.8	51.5	100.1	0.24	100.3	-48.8	-1,036.8

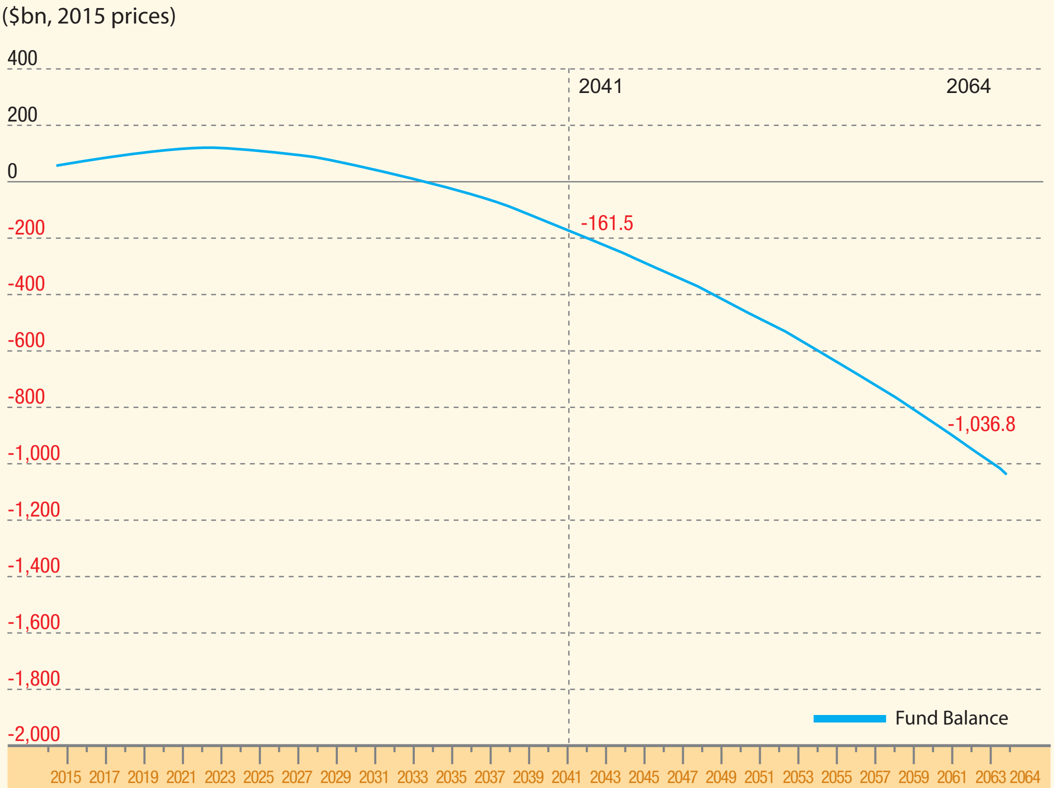
Notes: The social security take-up rate assumptions are based on those as adopted in the LTFP framework (for details, please see paragraph 4 of Annex 4), whilst all other assumptions follow the original projection framework of the Report.
Excluding elderly Disability Allowance, rent and other allowances in the CSSA system and Guangdong Scheme.
(@) Adjusted to 2015 prices in accordance with actual inflation.
(*) Updated based on the latest population and labour force projections. All figures are in 2015 constant prices.

Chart 2D Updated financial projections of the "Demo-grant" proposal based on the LTFP framework*

(i) Annual Cash flow projections



(ii) Fund balance



Notes: Excluding elderly Disability Allowance, rent and other allowances in the CSSA system and Guangdong Scheme.

(*) The updated financial projections are based on: (i) the latest population and labour force projections; (ii) the payment level and relevant income limits, updated to 2015 prices; (iii) the original financing arrangement of the "Demo-grant" proposal; and (iv) adopting the take-up rate assumptions for the elderly social security schemes are based on those as adopted in the LTFP framework, with all other assumptions follow the original framework of the Report. For details, please refer to table 6D.

Table 7A Updated financial projections of the DAB proposal based on the LTFP framework ($ bn, 2015 prices)

Year	The overall elderly social security expenditure*	DAB proposal increased expenditure	DAB proposal overall expenditure	Ratio of overall expenditure to Nominal GDP
2015	20.9	9.9	30.8	1.28%
2016	21.7	10.5	32.1	1.31%
2017	22.4	10.9	33.3	1.33%
2018	23.1	11.3	34.4	1.35%
2019	24.0	11.8	35.8	1.38%
2020	24.9	12.2	37.2	1.41%
2021	25.9	12.8	38.6	1.44%
2022	26.9	13.3	40.2	1.48%
2023	27.9	13.9	41.8	1.52%
2024	29.0	14.5	43.5	1.56%
2025	30.1	15.0	45.1	1.61%
2026	31.2	15.5	46.7	1.65%
2027	32.2	15.9	48.1	1.68%
2028	33.4	16.5	49.9	1.73%
2029	34.5	16.9	51.4	1.76%
2030	35.5	17.3	52.8	1.79%
2031	36.4	17.5	53.9	1.81%
2032	37.2	17.7	54.9	1.83%
2033	38.1	17.8	55.9	1.84%
2034	38.9	18.0	56.8	1.86%
2035	39.6	18.1	57.7	1.87%
2036	40.2	18.3	58.5	1.87%
2037	40.7	18.5	59.2	1.88%
2038	41.2	18.7	60.0	1.89%
2039	41.7	18.9	60.6	1.89%
2040	42.1	19.0	61.1	1.89%
2041	42.4	19.1	61.4	1.88%
2042	42.6	19.1	61.8	1.88%
2043	42.9	19.1	62.0	1.88%
2044	43.1	19.2	62.3	1.88%
2045	43.2	19.3	62.5	1.88%
2046	43.3	19.4	62.7	1.88%
2047	43.4	19.5	62.9	1.88%
2048	43.5	19.6	63.1	1.89%
2049	43.6	19.6	63.2	1.88%
2050	43.6	19.6	63.3	1.89%
2051	43.6	19.7	63.3	1.89%
2052	43.7	19.7	63.3	1.89%
2053	43.7	19.7	63.4	1.89%
2054	43.8	19.8	63.6	1.90%
2055	43.9	19.9	63.7	1.90%
2056	43.9	19.9	63.8	1.90%
2057	43.9	20.0	63.8	1.90%
2058	43.9	19.9	63.8	1.90%
2059	43.9	19.9	63.8	1.90%
2060	43.9	19.8	63.8	1.90%
2061	44.0	19.8	63.8	1.91%
2062	44.0	19.7	63.7	1.91%
2063	43.9	19.6	63.5	1.90%
2064	43.7	19.4	63.1	1.89%

Notes: The social security take-up rate assumptions are based on those as adopted in the LTFP framework.
(*) Excluding elderly Disability Allowance, rent and other allowances in the CSSA system and Guangdong Scheme.

Table 7B Updated financial projections of the NPP proposal based on the LTFP framework ($ bn, 2015 prices)

Year	The overall elderly social security expenditure*	NPP proposal increased expenditure	NPP proposal overall expenditure	Ratio of overall expenditure to Nominal GDP
2015	20.9	6.2	27.1	1.13%
2016	21.7	6.4	28.1	1.15%
2017	22.4	6.7	29.0	1.16%
2018	23.1	6.9	30.0	1.18%
2019	24.0	7.2	31.2	1.20%
2020	24.9	7.5	32.4	1.22%
2021	25.9	7.8	33.7	1.26%
2022	26.9	8.1	35.0	1.29%
2023	27.9	8.4	36.3	1.32%
2024	29.0	8.8	37.7	1.36%
2025	30.1	9.1	39.2	1.40%
2026	31.2	9.5	40.6	1.43%
2027	32.2	9.8	42.0	1.47%
2028	33.4	10.1	43.5	1.51%
2029	34.5	10.5	44.9	1.54%
2030	35.5	10.8	46.3	1.57%
2031	36.4	11.0	47.4	1.59%
2032	37.2	11.2	48.4	1.61%
2033	38.1	11.5	49.5	1.63%
2034	38.9	11.7	50.5	1.65%
2035	39.6	11.9	51.5	1.66%
2036	40.2	12.1	52.3	1.67%
2037	40.7	12.2	52.9	1.68%
2038	41.2	12.4	53.6	1.69%
2039	41.7	12.5	54.2	1.69%
2040	42.1	12.6	54.7	1.69%
2041	42.4	12.7	55.1	1.69%
2042	42.6	12.8	55.4	1.69%
2043	42.9	12.8	55.7	1.69%
2044	43.1	12.9	55.9	1.68%
2045	43.2	12.9	56.2	1.69%
2046	43.3	13.0	56.3	1.69%
2047	43.4	13.0	56.5	1.69%
2048	43.5	13.0	56.6	1.69%
2049	43.6	13.1	56.6	1.69%
2050	43.6	13.1	56.7	1.69%
2051	43.6	13.1	56.7	1.69%
2052	43.7	13.1	56.8	1.69%
2053	43.7	13.1	56.8	1.69%
2054	43.8	13.1	56.9	1.70%
2055	43.9	13.2	57.0	1.70%
2056	43.9	13.2	57.1	1.70%
2057	43.9	13.2	57.1	1.70%
2058	43.9	13.2	57.1	1.70%
2059	43.9	13.2	57.1	1.70%
2060	43.9	13.2	57.1	1.71%
2061	44.0	13.2	57.2	1.71%
2062	44.0	13.2	57.1	1.71%
2063	43.9	13.1	57.0	1.71%
2064	43.7	13.1	56.8	1.70%

Notes: The social security take-up rate assumptions are based on those as adopted in the LTFP framework.

(*) Excluding elderly Disability Allowance, rent and other allowances in the CSSA system and Guangdong Scheme.

Public Annuity Scheme Proposed by Dr Law Chi-kwong

The proposal

1. According to Dr Law Chi-kwong's proposal, participants of the scheme have to pay a lump sum (such as MPF benefits and private savings), and in return they will receive for the rest of their life a fixed monthly payment (known as payout) based on average life expectancy and pre-determined interest rates. As participants differ in their lifespan, the scheme operators can use risk pooling to reduce the overall financial burden brought about by longevity risk on them.

Details of the scheme

2. At present, there are only a limited number of annuity products available on the private market. Dr Law proposes that the scheme can be run by the Government or a statutory body. In the early stage of its implementation (e.g. in the first three years), the elderly may enrol on a voluntary basis. At a later stage (e.g. after three years), consideration may be given to mandating enrolment of those retired persons who have accumulated MPF benefits for more than 15 years. There is no restriction on the sources of the money a participant puts into the scheme. The money may come from MPF benefits or other private savings. It can also be paid by family members of the participants. For voluntary enrolment, the money that can be put in will not be capped nor will there be a minimum amount stipulated. In the case of mandatory enrolment, a minimum amount will be set. Three plans are available under the scheme:

Standard Plan

This plan has a higher monthly payout. There will be no remaining value in the plan no matter when the participant dies.

Basic Plan

This plan has a lower monthly payout. If the participant dies before the age of 80, there will be remaining value in the plan which will be treated as part of his/her estate. The remaining value will reduce gradually as monthly payouts are made and become zero when the participant turns 80.

Enhanced Plan

The monthly payout made by this plan is the lowest among the three. If the participant dies before he/she reaches the age of 90, there will be remaining value in the plan as part of his/her estate. The remaining value will reduce gradually as monthly payouts are made and become zero when the participant turns 90.

3. Payout calculation is based on the age of the participants upon enrolment, average life expectancy and return rate. Assuming that all participants put the same amount of money into the scheme, the older a participant is, the higher payout he/she will get. The payout calculation of the Basic Plan/Enhanced Plan is based on the life expectancy of the participants when they reach the age of 80/90. On the return rate, Dr Law suggests that it should be inflation-linked and the payout will be calculated at a guaranteed real rate of return of 1%. If the investment return is higher than the guaranteed return, half of the surplus return will be paid to the participants in form of dividend, while the other half will be allocated to a fund to ensure the stable development of the scheme in the long run.

4. Participants of the scheme meeting the eligibility criteria for the CSSA, OALA or OAA can continue to receive the social security benefits. However, the monthly payouts they receive will be regarded as income, and the remaining value owned by the participants of the Basic Plan or Enhanced Plan will be counted as their assets.

5. As the scheme does not require government subsidies, there is no need to estimate the Government's financial commitment and assess the sustainability. However, there are certain risk factors that the Government needs to consider, such as the need to use public money to maintain the guaranteed return rate when the scheme fails to yield the desirable investment return, the need for government injection if the money the participants put into the scheme is unable to cover the payouts when the participants live longer than the life expectancy assumed in the payout calculation, and the administrative fees to be incurred. These risk factors may substantially increase the public expenditure relating to the scheme.

Views of the CoP

6. Although the number and proportion of elderly people holding assets are increasing, the public have little understanding of annuity. Many elderly people still prefer to retain the ownership of their assets. It remains to be seen whether they will accept the arrangement of requiring investment of their assets before they can withdraw benefits from it at regular intervals.

7. Generally speaking, the CoP shares the view that the annuity proposal is worth further exploring as it can help elderly people turn a lump sum of their savings into a stable monthly retirement income. As the MPF System becomes better developed, the focus of reform should shift from the accumulation stage to the withdrawal period, helping employees convert their MPF benefits into monthly incomes through annuity plans to better support their retirement life. The CoP considers it necessary to examine issues including the prerequisites for introducing a publicly-managed annuity scheme in Hong Kong (e.g. the role of the Government, the Government's financial commitments involved in the annuity scheme, the need for mandatory enrolment and guaranteed return) and its interface with other retirement protection pillars.

Glossary

Terms	Definition
Retirement Protection System	
World Bank's multi-pillar approach	In 1994, the World Bank recommended a three-pillar approach comprising — First pillar : a publicly-financed and managed social safety net Second pillar : a privately-managed mandatory contribution system Third pillar : voluntary personal savings In 2005, the World Bank expanded the three-pillar framework into five pillars as follows – Zero pillar : Publicly-funded pension or social security schemes First pillar : Publicly-managed mandatory contributory plans Second pillar : Privately-managed mandatory occupational or private contributory pension plans Third pillar : Voluntary contributions to occupational or private pension plans Fourth pillar : Public services, family support and personal assets
Pay-as-you-go (PAYG) schemes	Scheme benefits are paid to current retirees from contributions or taxes from current workers and employees. When the current generations retire, they will be supported by the next generations. These schemes generally do not have dedicated assets to pay for future pension claims. Some countries however have partial pre-funding of the pension liabilities, for instance, by building up large reserves.
Fully funded schemes	These schemes have dedicated assets to pay for future pension claims. They require the benefits received by an individual to be matched by his/her own contributions. The assets accrued should be or are expected to be sufficient to meet the future pension benefits payable to scheme members.
Publicly-managed retirement protection scheme	These schemes are managed by the Government and are traditionally financed on a PAYG basis.
Privately-managed retirement protection scheme	These schemes are managed by institutions other than the government, such as private pension fund providers or other service providers. These schemes are usually fully funded.
Defined benefit plan	A pension plan with a guarantee that a benefit based on a prescribed formula will be paid.
Defined contribution plan	A pension plan in which the periodic contribution is prescribed and the benefit depends on the contribution plus the investment return.
The zero pillar – social security	
Comprehensive Social Security Assistance (CSSA) Scheme	The CSSA Scheme was introduced in 1993, replacing the former Public Assistance Scheme. The Scheme provides a safety net of last resort to households that cannot support themselves financially owing to old age, sickness, disability, single-parenthood, unemployment and low income etc, so as to help them meet their basic needs.

Portable Comprehensive Social Security Assistance (PCSSA) Scheme	The PCSSA Scheme (only covered Guangdong Province when it was introduced in 1997 and extended to Fujian Province in 2005) enables elderly CSSA recipients who meet the prescribed criteria to continue to receive cash assistance under the CSSA Scheme if they choose to retire permanently in Guangdong or Fujian Province.
CSSA's recognised needs	Recognised needs under the CSSA include the basic and special needs of CSSA recipients, i.e. the various types of payment received under the CSSA Scheme – (a) standard rates; (b) supplements; and (c) special grants.
Old Age Living Allowance (OALA)	The means-tested OALA was introduced in 2013. It supplements the living expenses of elderly persons aged 65 or above who are in need of financial support.
Old Age Allowance (OAA)	The OAA was introduced in 1973. It provides a non-means-tested allowance to elderly persons aged 70 or above to meet their special needs arising from old age.
Guangdong Scheme	The Guangdong Scheme was introduced in 2013. It enables eligible Hong Kong elderly persons aged 65 or above who choose to reside in Guangdong to receive the OAA without having to return to Hong Kong. Elderly persons aged 65 to 69 must satisfy the income and asset requirements, while elderly persons aged 70 or above are not subject to means test.
Disability Allowance (DA)	The DA was introduced in 1973. It provides a non-means-tested allowance to persons with severe disabilities to meet their special needs arising from disabilities.
Second pillar - Mandatory contributions to MPF schemes; Occupational Retirement schemes	
Mandatory Provident Fund (MPF)	The MPF System aims to assist the working population of Hong Kong to save for their retirement. Under the MPF System, self-employed persons, employees and their employers are required to contribute 5% of the relevant income of the self-employed persons or the employees concerned as mandatory contributions.
Annualised Internal Rate of Return (IRR) of the MPF System	The return of the MPF System was calculated by way of the IRR, a method commonly known as dollar-weighted return. The IRR method takes into account the amount and timing of contributions into and benefits withdrawn from the MPF System. The annualised IRR is calculated by raising the monthly IRR to the power of 12.
Minimum and Maximum Relevant Income (RI) levels for MPF Contributions	Self-employed persons and employees with RI less than the minimum RI level (currently $7,100 per month) are exempt from the mandatory MPF contribution requirement, but their employers are required to make a contribution of 5% of the employees' relevant income as the employer's part of mandatory contributions. On the other hand, if the RI of self-employed persons and employees is above the maximum RI level (currently $30,000 per month), these self-employed persons and employees as well as their employers are not required to make mandatory MPF contributions in respect of RI exceeding the maximum RI level.
MPF Employee Choice Arrangement	Under the Employee Choice Arrangement (commonly known as "MPF Half Portability"), employees are allowed to transfer the accrued benefits arising from the employee's mandatory contributions in their MPF contribution accounts to an MPF scheme of their own choice on a lump sum basis once every calendar year.
MPF Average Fund Expense Ratio (FER)	The average FER of all MPF Constituent Funds weighted by their respective net asset values. The FER is a ratio that measures the expenses of an MPF Constituent Fund as a percentage of fund size.

"Offsetting" arrangement	According to the Mandatory Provident Fund Schemes Ordinance (Cap. 485) and the Employment Ordinance (Cap. 57), if an employee becomes entitled to severance payment or long service payment, the employer may use the accrued benefits derived from his contributions to a MPF scheme for the employee to offset the amount payable.
Severance payment	An employee who has been employed under a continuous contract by the same employer for not less than 24 months is eligible for severance payment if: • he/she is dismissed by reason of redundancy; • his/ her employment contract of a fixed term expires without being renewed by reason of redundancy; or • he/she is laid off under the circumstances as specified in the Employment Ordinance. Calculation formula: (Last month's wages* x 2/3)# x years of service = entitled severance payment ^ Remarks: * An employee may elect to use his/her average wages in the last 12 months for calculation. # The monthly wage cap is $22,500, i.e. maximum payment of $15,000 ($22,500 x 2/3) for each year of service. Service of an incomplete year should be calculated on a pro rata basis. ^ The maximum amount is $390,000.
Long service payment	An employee who has been employed under a continuous contract by the same employer for not less than five years is eligible for long service payment if: • he/she is dismissed other than by reasons of redundancy or serious misconduct; • his/her fixed term employment contract expires without being renewed; • he/she is permanently unfit for his/her present job due to health reasons; • he/she resigns at the age of 65; or • he/she dies during employment. The calculation formula for long service payment is the same as severance payment (please refer to the information on severance payment).
Occupational Retirement Schemes (ORSO schemes)	ORSO schemes refer to occupational retirement schemes regulated under the Occupational Retirement Schemes Ordinance (Cap. 426). ORSO schemes were retirement schemes set up voluntarily by employers prior to the implementation of the MPF System. As such, the governing rules of the schemes (such as employee eligibility, contribution levels and withdrawal) are drawn up by individual employers. Since the implementation of the MPF System in 2000, MPFA has exempted a number of ORSO schemes that meet the relevant requirements in accordance with the Mandatory Provident Fund Schemes (Exemption) Regulation (i.e. MPF-exempted ORSO schemes). Employers of these MPF-exempted ORSO schemes are required to give new eligible employees a one-time option to choose between joining an MPF scheme or the MPF exempted ORSO scheme. MPF-exempted ORSO schemes are also regulated by the Occupational Retirement Schemes Ordinance.
Civil Service pension schemes	The Government currently operates two statutory, non-contributory pension schemes for civil servants who were appointed before June 2000 on pensionable terms. The Old Pension Scheme is governed by the Pensions Ordinance (Cap. 89) while the New Pension Scheme is governed by the Pension Benefits Ordinance (Cap. 99).

Grant/Subsidised Schools Provident Funds	The Funds are statutory provident fund schemes established in accordance with the Grant/Subsidized Schools Provident Fund Rules (Cap. 279C and Cap. 279D) to eligible teachers employed in grant/subsidized schools. While eligible teachers shall make monthly contribution to the respective Fund at the rate of 5% of their salary, the government shall pay to the Fund with the amount equal to 5% to 15% of the teacher's salary, in accordance with the teacher's continuous contributory service as government donation.
Third pillar - Voluntary contributions of savings to occupational or private pension plans	
MPF Voluntary Contributions	The voluntary contributions that are made by employees and/or employers in addition to the MPF mandatory contributions.
Endowment insurance plan	The policyholder makes contributions/ payments to a plan which would provide an amount specified under the policy at the end of a specified term, upon maturity or on death of the insured.
Annuity scheme	The scheme allows participants to convert a lump-sum or specified period contributions into a steady stream of income over a selected period.
Fourth pillar - Public services, family support and personal assets	
The Hong Kong Housing Authority's various elderly persons priority schemes	Single Elderly Persons Priority Scheme One-person applicants reaching 58 years of age may opt to join the scheme and must have attained the age of 60 at the time of allocation of Public Rental Housing (PRH) units. Applicants under this scheme can choose any district (including the urban district). Eligible applicants enjoy priority processing over ordinary families. Elderly Persons Priority Scheme Two or more elderly persons, regardless of whether they are relatives or not, who undertake to live together upon allocation of a PRH unit are eligible to join the scheme. All the members in the application must be 58 years of age or above at the time of application and must have attained the age of 60 at the time of flat allocation. Applicants under this scheme can choose any one district (including the urban district), and they enjoy priority processing over ordinary families. Harmonious Families Priority Scheme This scheme encourages young families to take care of their elderly parents or dependent relatives by awarding eligible applicants a six-month credit in their waiting time. The young family can opt to live in one PRH unit with the elderly parents/ dependent relatives in any district (including the urban district), or to be allocated two PRH units close to each other in any non-urban district.
Senior Citizen Residences Scheme	The Senior Citizen Residences Scheme implemented by the Hong Kong Housing Society integrates purpose-built housing for the elderly with comprehensive health and care facilities. Housing units under this scheme are leased out to eligible middle-income elderly under a "lease for life" arrangement. There are currently two pilot projects under this scheme, viz Jolly Place at Tseung Kwan O and Cheerful Court at Jordan Valley.
Medical Fee Waiving Mechanism	To ensure that no one will be denied adequate medical care due to lack of means, the Hospital Authority (HA) has put in place a mechanism of medical fee waivers to provide assistance to needy patients who are CSSA recipients, or Non-CSSA recipients who cannot afford the public healthcare service charges and meet the eligibility assessment.

Samaritan Fund	The Samaritan Fund (SF) was established in 1950 by resolution of the Legislative Council. Its objective is to provide financial assistance to needy patients who meet the specified clinical criteria and passed the means test to meet expenses for designated Privately Purchased Medical Items (PPMI) or new technologies required in the course of medical treatment which are not covered by the standard fees and charges in public hospitals and clinics.
Geriatric Day Hospitals	Provide one-stop multi-disciplinary assessment, treatment and rehabilitation to elderly patients to facilitate their earlier integration to the community upon discharged from hospitals.
Elderly Appointment Quota	Based on previous General Outpatient Clinic (GOPC) service utilization pattern of elderly, quotas have been reserved for the elderly aged 65 or above with episodic illnesses to enhance their accessibility to GOPC services.
Outreach services to discharged elderly patients	Outreach services to discharged elderly patients include (i) Community Geriatric Assessment Service, (ii) Community Nursing Service, (iii) Community Psychiatric Services and Psycho-geriatric Outreach Services, and (iv) Community Allied Health Services.
Community Geriatric Assessment Teams (CGATs)	CGATs provide outreaching medical consultation, nursing assessment and treatment as well as rehabilitation to frail residents in Residential Care Home for the Elderly with complex health problems and poor mobility status on a regular basis to enhance continuity of care in the community. In addition, CGATs also promote care quality of RCHEs through provision of carer training.
Elderly Health Centres	The Department of Health established an Elderly Health Centre in each of the 18 districts, which serves to identify health risks and detect diseases earlier for timely intervention and prevention of complications, in a multi-disciplinary approach under primary care settings. Elders aged 65 or above are eligible for enrolling as members of Elderly Health Centres. Enrolled members are provided with services of health assessment, counselling, health education and curative treatment.
The Elderly Health Care Voucher	The Elderly Health Care Voucher Scheme subsidises elderly people aged 70 or above to receive private primary healthcare services, including medical and preventive care services provided by western medical practitioners, Chinese medicine practitioners, dentists and other seven types of registered healthcare professionals. The annual voucher amount is $2,000.
Elderly Vaccination Subsidy Scheme	Under the Elderly Vaccination Subsidy Scheme, elders who will be/are aged 65 or above are now entitled to a $160 Government subsidy per dose of seasonal influenza vaccination they receive from private medical doctors enrolled in the Scheme. Elders are now also entitled to a HK$190 Government subsidy per dose of pneumococcal vaccination if they are aged 65 years or above and have never received the vaccine before.
Cataract Surgeries Programme	The Programme aims to address the service demand and improve access of patients of the Hospital Authority (HA) to cataract surgeries through a public-private partnership delivery model. Patients on the HA clusters' routine cataract surgery waiting lists for a specified period are invited to undertake surgeries in the private sector on a voluntary basis with a fixed government subsidy of $5,000 subject to a co-payment of no more than $8,000 for each cataract surgery. Charity quotas are offered to those patients with limited economic means.

Subsidised Residential Care Services for the Elderly (Subsidised care-and-attention places, subsidised nursing home places, contract homes)	Subsidised residential care services for the elderly are provided for the elderly people who are assessed to be of moderate to severe impairment level under the Standardised Care Need Assessment Mechanism for Elderly Services (SCNAMES), and are unable to be adequately taken care of at home. Services include subsidised care-and-attention places and subsidised nursing home places. Subsidised care-and-attention places provide subsidised residential care services for the elderly people who are assessed to be of moderate impairment level under the SCNAMES, whereas subsidised nursing home places are provided for the elderly people who are assessed to be of severe impairment level under the SCNAMES. Contract homes are residential care service for the elderly subsidised through competitive bidding, under which both care-and-attention places and nursing home places are provided.
Day care centres or units for the elderly	Provide a range of care and support services during daytime to enable frail elderly persons suffering from moderate or severe level of impairment to maintain their optimal level of functioning, develop their potential, improve their quality of life and live in their own homes wherever feasible and possible.
Home care services	Home care services include Integrated Home Care Services (IHCS) and Enhanced Home and Community Care Services (EHCCS). Both IHCS (Frail Cases) and EHCCS provide a comprehensive package of services, including care management, basic and special nursing care, personal care, rehabilitation exercise, 24-hour emergency services and support services for the carers, etc. to elderly persons suffering from moderate or severe level of impairment. IHCS (Ordinary Cases) provides a range of community support services for the elderly, persons with disabilities and needy families living in the community, including meal delivery services, escort services, personal care, simple nursing care and household cleaning.
Pilot Scheme on Community Care Service Voucher for the Elderly	Launched in 2013, the Pilot Scheme on Community Care Service Voucher for the Elderly is implemented in two phases. The Pilot Scheme adopts the "money-following-the-user" approach as the funding mode, enabling eligible elderly persons to choose community care services that suit their individual needs.
Feasibility Study on Residential Care Service Voucher for the Elderly	In 2014, the Government tasked the Elderly Commission to conduct a feasibility study on introducing residential care service voucher for the elderly in a year's time. The study is in progress.
Subsidised elderly centres	Include District Elderly Community Centres and Neighbourhood Elderly Centres. They seek to provide community support services for elderly persons and their carers at district and neighbourhood levels, and to facilitate them to receive multifarious services at centres in the vicinity.
Public transport fare concession scheme	To encourage the elderly and eligible persons with disabilities to participate more in community activities, the Government has, since June 2012, been implementing the Government Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities (the Scheme) by phases to cover the general Mass Transit Railway (MTR) lines, franchised buses, ferries and most green minibus routes. The Scheme allows elderly people aged 65 or above as well as persons with 100% disabilities aged below 65 receiving CSSA or DA to travel on the above designated public transport modes anytime at a concessionary fare of $2 per trip.

Special Scheme on Privately Owned Sites for Welfare Uses	The Government launched the Special Scheme on Privately Owned Sites for Welfare Uses in September 2013. Through more flexible use of the Lotteries Fund and provision of assistance during the planning or development process, the Scheme encourages welfare non-governmental organisations to provide diversified subvented and self-financing facilities, particularly elderly and rehabilitation facilities, through redevelopment, in-situ expansion or new development on their own land.
Elderly Services Programme Plan	In 2014, the Government tasked the Elderly Commission to formulate an Elderly Services Programme Plan in two years' time, with an aim to laying down the plans for the long-term development of elderly services. The formulation is in progress.
Reverse Mortgage	The Hong Kong Mortgage Corporation Limited has launched the Reverse Mortgage Programme since 2011, allowing individuals who are aged 55 or above to use their residential properties in Hong Kong and life insurance policies as security to borrow from a participating bank. Borrowers will either receive monthly pay outs over a payment term of a fixed period or lump-sum pay outs. Borrowers remain as the owners of the properties concerned and are entitled to continue to reside in the properties concerned for the rest of the borrower's life. In general, borrowers do not need to repay the reverse mortgage loan during his/her lifetime. The loan repayment procedures will only commence when the reverse mortgage loan is terminated upon the death of the borrower.
Others	
Labour force	Labour force refers to land-based non-institutional population aged 15 and over who satisfy the criteria for inclusion in the employed population or the unemployed population. The employed population consists of persons aged 15 and over who have been at work for pay or profit during the 7 days before enumeration or who have had formal job attachment. The unemployed population comprises all those persons aged 15 and over who fulfil the following conditions: (a) have not had a job and have not performed any work for pay or profit during the 7 days before enumeration; and (b) have been available for work during the 7 days before enumeration; and (c) have sought work during the 30 days before enumeration.
Labour force participation rate	Labour force participation rate refers to the proportion of labour force in the total land-based non-institutional population aged 15 and over.
Total fertility rate	Total fertility rate refers to the average number of children that would be born alive to 1 000 women during their lifetime if they were to pass through their childbearing ages 15-49 experiencing the age specific fertility rates prevailing in a given year.
Expectation of life at age 65	Expectation of life at age 65 refers to the number of years of life that a person aged 65 in a given year is expected to live if he/she were subjected to the prevalent mortality conditions as reflected by the set of age-sex specific mortality rates for that year.
Child dependency ratio	Child dependency ratio refers to the number of persons aged under 15 per 1 000 persons aged between 15 and 64.
Elderly dependency ratio	Elderly dependency ratio refers to the number of persons aged 65 and over per 1 000 persons aged between 15 and 64.
Poverty line	Hong Kong's official poverty line is based on the concept of "relative poverty", and set at 50% of the median monthly household income by household size before policy intervention (i.e. before taxation and social welfare transfer).

Link for Further Information

Census and Statistics Department
http://www.censtatd.gov.hk/home/index.jsp

Central Provident Fund Board, Singapore
https://www.cpf.gov.sg/members

Hong Kong Housing Authority / Housing Department
https://www.housingauthority.gov.hk/en/index.html

Hong Kong Housing Society
http://www.hkhs.com/index.asp?lang=eng

Hong Kong Poverty Situation Report 2014
http://www.povertyrelief.gov.hk/pdf/poverty_report_2014_e.pdf

Hospital Authority
http://www.ha.org.hk/visitor/ha_index.asp

International Monetary Fund
http://www.imf.org/external/index.htm

Labour Department
http://www.labour.gov.hk

Legislative Council
http://www.legco.gov.hk/

Mandatory Provident Fund Schemes Authority
http://www.mpfa.org.hk/eng/main/index.jsp

Melbourne Mercer Global Pension Index
http://www.globalpensionindex.com/

Report of the Working Group on Long-Term Fiscal Planning
http://www.fstb.gov.hk/tb/en/report-of-the-working-group-on-longterm-fiscal-planning.htm

Research Report on Future Development of Retirement Protection in Hong Kong – by research team led by Professor Nelson Chow
http://www.cpu.gov.hk/en/research_reports/archives/archives_all.html

Social Welfare Department
http://www.swd.gov.hk

The Hong Kong Mortgage Corporation Limited
http://www.hkmc.com.hk/eng/

The Organisation for Economic Co-operation and Development
http://www.oecd.org/social/

The World Bank
http://www.worldbank.org/en/topic/pensions

Thematic Household Survey Report on " Retirement planning and the financial situation in old age" (Census and Statistics Department)
http://www.statistics.gov.hk/pub/B11302522013XXXXB0100.pdf

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