Full Range of Support for Retirement Protection

Government's Response to the "Retirement Protection   Forging Ahead" Public Engagement Exercise

"The Government has devised a package of measures to strengthen each of our existing pillars and to invest more in providing better care for elderly persons. Subject to the Legislative Council's funding approval, we will implement the enhancements to the Old Age Living Allowance and medical services as soon as possible. As for phasing out the MPF "offsetting" arrangement, we will immediately engage stakeholders in thorough discussions with a view to reverting to the Executive Council with a finalised proposal for decision by end June this year. Besides, we will study the viability of a public annuity scheme, etc. to help elderly persons manage their longevity risk."

Chief Secretary for Administration

Chief Secretary for Administration's Office
January 2017

Proposals for thorough discussions with stakeholders in next three months

Abolish MPF "offsetting" progressively

- From a prospective date (Effective Date), abolish "offsetting" arrangement with no retrospective effect and put in place "grandfathering" arrangement

- Under the "grandfathering" arrangement, as and when an employer needs to pay severance payment (SP)/long service payment (LSP), he can use accrued benefits from his MPF contributions before the Effective Date and the returns derived therefrom to "offset" against SP/LSP payable for the employment period before the Effective Date. This part of SP/LSP will be calculated according to the existing statutory formula, i.e. – **last month's wage before Effective Date x 2/3 (i.e. 66.7%) x years of service**

- The SP/LSP payable for the employment period from the Effective Date cannot be "offset" by accrued benefits from MPF contributions, and has to be paid by employers out-of-pocket. This part of SP/LSP will be adjusted downwards and its formula will be revised as – **last month's wage x 1/2 (i.e. 50%) x years of service** (i.e. a dismissed employee with two years of service can receive compensation equivalent to one month's wage)

- In the ten years from the Effective Date, the Government will provide subsidies for employers on a reimbursement basis, in order to share part of the SP/LSP expenditure, until the 11th year when the cost will be fully taken up by employers

Year after the Effective Date	Employers' net SP/LSP payment (as % of monthly wage)	Government subsidy reimbursed to employers (as % of monthly wage)	Total SP/LSP (as % of monthly wage)
1	25%	25%	50%
2	25%	25%	50%
3	30%	20%	50%
4	30%	20%	50%
5	35%	15%	50%
6	35%	15%	50%
7	40%	10%	50%
8	40%	10%	50%
9	45%	5%	50%
10	45%	5%	50%
11	50%	-	50%

Example

Assuming that an employee who has been employed for three years before the Effective Date is dismissed three years after the Effective Date and that his monthly wage remains unchanged at $15,000 throughout the six-year employment period. Putting aside the investment returns of MPF contributions –

Current system

MPF contributions during the 6-year employment period

Employer's MPF contributions $54,000: $15,000 x 5% x 12 months x 6 years = $54,000

SP/LSP for the 6-year employment period

SP/LSP $60,000: $15,000 x 2/3 x 6 years = $60,000

Of which, "offset" by MPF contributions first, with the remaining paid out-of-pocket by employer

SP/LSP $60,000 − Employer's MPF contributions $54,000 = Paid out-of-pocket by employer $6,000

Employee's benefit

SP/LSP $60,000 + Employer's MPF contributions $0 = Employee benefit $60,000

Cost to employer

Employer's MPF contributions $54,000 + Paid out-of-pocket by employer $6,000 = Employer cost $60,000

Government subsidy

Government subsidy $0

Proposed system

Employer's MPF contributions same at **$54,000**

Employer's MPF contributions $27,000 (Contributions of first 3 years of employment available for "offsetting" under the "grandfathering" arrangement) + Employer's MPF contributions $27,000 ("Offsetting" not allowed for contributions of latter 3 years of employment) = Employer's MPF contributions $54,000

SP/LSP for the 6-year employment period = **$52,500**

SP/LSP $30,000 (SP/LSP for first 3 years before Effective Date: $15,000 x 2/3 x 3 years = $30,000) + SP/LSP $22,500 (SP/LSP for latter 3 years after Effective Date: $15,000 x 1/2 x 3 years = $22,500) = SP/LSP $52,500

First 3 years

Of which, "offset" by MPF contributions first, with the remaining paid out-of-pocket by employer

SP/LSP $30,000 − Employer's MPF contributions $27,000 = Paid out-of-pocket by employer $3,000

Latter 3 years

Employer reimbursed with government subsidy (i.e. 20% of monthly wage in the 3rd year)

SP/LSP $22,500 − Government subsidy $9,000 ($15,000 x 20% x 3 years = $9,000) (i.e. 40% of SP/LSP payable) = Paid out-of-pocket by employer $13,500

Employee's benefit

SP/LSP $52,500 + Employer's MPF contributions $27,000 = Employee benefit $79,500

Cost to employer

Employer's MPF contributions $54,000 + Paid out-of-pocket by employer $16,500 ($3,000 (First 3 years) + $13,500 (Latter 3 years) = $16,500) = Employer cost $70,500

Government subsidy

Government subsidy $9,000

	Current system	Proposed system	Increase
Employee benefit	$60,000	$79,500	$19,500
Employer cost	$60,000	$70,500	$10,500
Government subsidy	$0	$9,000	$9,000

Proposals requiring further study

- Develop a centralised electronic portal, eMPF, to streamline and automate the MPF scheme administration so as to create more room for further fee reduction, paving the way for "full portability" and progressing towards the ultimate goal of "one member, one account"

- Explore the feasibility of a public annuity scheme, Silver Bond of longer tenor, etc. to help elderly persons annuitise lump-sum assets into a steady stream of monthly income in order to manage longevity risk

Initial estimate on Government's financial commitment

Measures	Initial estimate on expenditure or income forgone for next 10 years ($ billion)	Initial estimate on number of beneficiaries in the first year of implementation
Add a higher tier of allowance and relax the existing asset limits under OALA	75.57	Around 500 000 elderly persons
Lower the eligibility age for Elderly Health Care Voucher	11.86	Around 400 000 elderly persons
Automatic medical fee waiver for older and more needy OALA recipients in receiving public medical services	3.13	Around 140 000 elderly persons
Government subsidy during the transitional period of abolishing "offsetting"	6.22	-
Maximum tax forgone related to making LSP provisions which are tax deductible	17.96	-

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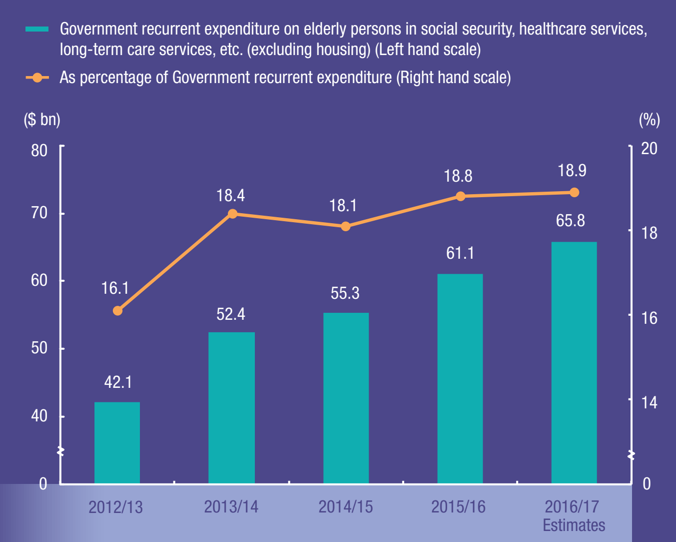
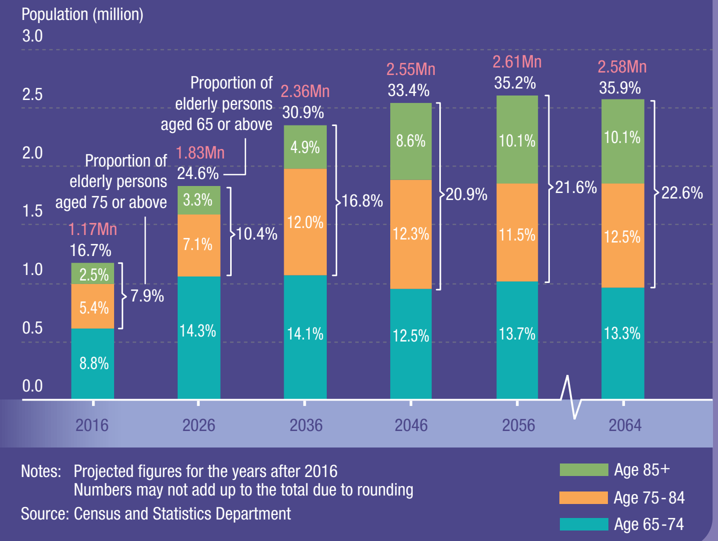
With elderly care as this Government's policy priority, past 4 years saw impressive growth of elderly recurrent expenditure by 56%



Source: Relevant policy bureaux

But to cope with the ageing challenge and allow our elderly to age without worry, the community should invest more in retirement protection

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



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

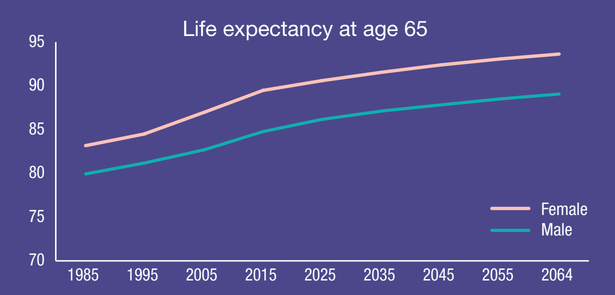
Source: Census and Statistics Department

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

2015

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

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



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

Continue adopting multi-pillar system with necessary enhancements; shared responsibility amongst individuals/families, employers and Government

Pillar 0 (Government)
- Comprehensive Social Security Assistance (CSSA)
- Old Age Living Allowance (OALA)
- Old Age Allowance (OAA)
- Guangdong Scheme
- Fujian Scheme*
- Disability Allowance (DA)

Pillar 2 (Employers and Employees)
- Mandatory contributions to MPF schemes
- Occupational retirement schemes
- Civil service pensions
- Grant/Subsidized Schools Provident Funds

Pillar 3 (Individuals/Families)
- Voluntary contributions to occupational pension plans
- Retirement savings – related insurance

Pillar 4 (Government, Individuals/Families)
- Public housing
- Public healthcare
- Social welfare services
- Elderly Health Care Voucher
- Public transport fare concession
- Family support
- Self-owned properties

Note: (*) Fujian Scheme is a new initiative proposed in 2017 Policy Address

Source: Relevant policy bureaux

How elderly are protected under existing system?

Pillar 0: Multi-tiered social security system

- Covering 860 000 elderly persons (over 70% of elderly population)
- Depending on elderly's needs, financial situation, etc., monthly payment ranging from $1,325 to over $10,000 per person

Pillar 2: MPF mandatory contributions

- Covering 2.8 million employees and self-employed persons
- Net asset value of $655.5 billion, including investment return of $138.7 billion

Pillar 3: MPF voluntary contributions

- Increased substantially from $4.1 billion in 2007 to $15.4 billion in 2015

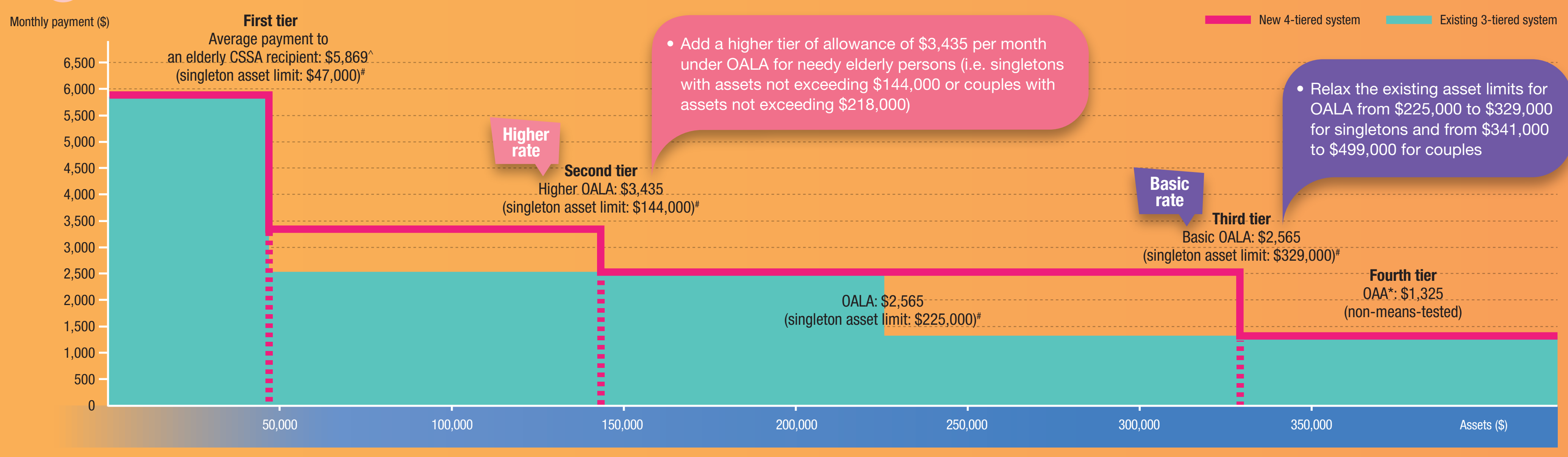
Pillar 4: Public services

- 570 000 elderly persons (over half of elderly population) living in public housing (another almost 400 000 elderly persons residing in self-owned private housing)
- Nearly 30 000 elderly persons living in subsidised residential homes, with another almost 30 000 receiving subsidised community care services
- 830 000 elderly persons using services of the Hospital Authority
- 640 000 elderly persons have made used of Elderly Health Care Voucher
- 970 000 passenger trips by elderly persons under the $2 transport fare concession per day

Building on this basis, we have devised a package of measures to strengthen each of the pillars ...

Proposals to be implemented subject to Legislative Council's funding approval

Enhancing the multi-tiered social security system to provide better protection for needy elderly



- Add a higher tier of allowance of $3,435 per month under OALA for needy elderly persons (i.e. singletons with assets not exceeding $144,000 or couples with assets not exceeding $218,000)
- Relax the existing asset limits for OALA from $225,000 to $329,000 for singletons and from $341,000 to $499,000 for couples

Notes: (#) There are different asset limits for families (CSSA) or couples (OALA)
(^) Based on a broad-brush estimation, the average monthly CSSA payment for singleton recipients aged 60 or above in 2016 was $5,869
(*) OAA is available for elderly persons aged 70 or above

During first year of implementing the new 4-tiered system:

- benefit about 500 000 elderly persons (around 40% of elderly population); each person will receive an additional amount of $10,000 to $30,000 each year
- strengthen the social security pillar to cover about 910 000 elderly persons (around 74% of elderly population)

Enhancing the CSSA application arrangement for the elderly

- Raise the eligibility age for elderly CSSA from 60 to 65 to align with the population policy on extension of retirement age, but recipients aged 60 to 64 before the new policy takes effect will not be affected
- Abolish the arrangement for relatives concerned to make a declaration on whether they provide elderly persons who apply for CSSA on their own with financial support (the so-called "bad son statement") while maintaining the one-household rule under CSSA

Addressing healthcare needs of the elderly

- Grant medical fee waivers automatically to older and more needy OALA recipients (i.e. aged 75 or above and with assets of no more than $144,000 for singletons or $218,000 for couples) who receive public medical services
- Lower the eligibility age for the Elderly Health Care Voucher from 70 to 65
- Provide Hospital Authority with additional $2 billion recurrent resources from 2017-18 to improve medical services for the elderly and other patients and reduce waiting time. Services provided by the Department of Health's Elderly Health Centres and Visiting Health Teams will also be enhanced

Elderly receiving cash allowance based on needs; most public services available for all elderly

Safety net for elderly

Government's cash assistance

Elderly	Elderly couple	Elderly	Elderly
CSSA (Singleton)* ranging from around **$4,000** to above **$10,000** per month	Higher OALA (Couple)~ **$6,870** per month	Basic OALA (Singleton) **$2,565** per month	OAA **$1,325** per month or DA **$1,695/$3,390** per month

Public services

- Public hospital and clinic services
- Elderly Health Care Voucher
- $2 transport fare concession
- Public housing
- Home/community care services
- Residential homes for elderly
- Community Care Fund's elderly programmes^

Notes: (*) The payment for CSSA elderly recipients is determined by their respective recognised needs and includes standard rate, supplement(s), rental allowance and other special grant(s). Items of special grant include: special diet allowance, medical items, emergency alarm system for elderly recipients, telephone charges, glasses, dental treatment, etc.
(~) Higher OALA for elderly singletons is $3,435 per month
(^) Including allowance for carers of elderly persons, dental services for OALA recipients, dementia community support services for elderly, etc.