

Ensure the Financial Security of the Elderly Research Report on Universal Old Age Pension Scheme

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I. Introduction

1. In light of the emerging problem of ageing population, the financial security for growing number of senior citizens merits greater attention as there is still no comprehensive retirement protection mechanism in place. Several latest local incidents as well as global developments also demonstrated that the financial sustainability of the elderly would be a matter that needs to be tackled in an urgent manner.
2. However, the HKSAR Government (hereafter the Government) has not accorded great importance to the ageing problem in recent years. Ageing population was translated by the Government as a rationale to justify the proposition of “healthcare reform consultation” under which the middle class will eventually be required to use and pay for the private-sector healthcare services.¹ Although the Government has certain extent showed its concern to elderly issue like old age healthcare, it fails to address more important issues such as the problem of financial security and poverty facing an ageing population.
3. The controversy over the applicability of means test to Old Age Allowance (hereafter OAA) scheme and the general outcry for an increase of OAA rate from \$625 (the level for aged 65-69) and \$705 (the level for aged 70 or above) to \$1,000 once again exposed the structural defects of Old Age Comprehensive Social Security Assistance (hereafter CSSA) Scheme which forced many elderly in need to rely on OAA as major source of income. Even the Government eventually agreed to raise the OAA rate to \$1,000 from 1 Jan 2009, there is no long-term resolution to the problem of old age poverty.
4. It is astonishing to learn that many senior citizens in Hong Kong, the Asia’s World City, have to collect waste to support their living. According to the survey results of the Hong Kong Council of Social Services (hereafter HKCSS) in 2007, there were as many as 260 000 elders living in poverty, amounting to 30 per cent of elderly population in Hong Kong.² In the past years, there were heartbreaking news about senior citizens being hit or even killed by vehicles while collecting recyclable materials.³ The above-mentioned incidents have seriously undermined the credibility and reliability of the social security system which is a

¹ See Food and Health Bureau, “Consultation Document on Healthcare Reform”
< http://www.fhb.gov.hk/beStrong/eng/consultation/consultation_cdhcr.html >

² 〈 26 萬長者貧 窮線度日 〉, *Hong Kong Daily News*, 24 March 2007, p. A4.

³ 〈 拾荒競爭劇長者意外頻 〉, *Mingpao*, 2 August, 2008, p. A10.

crucial part of the existing retirement financial protection system.

5. Another component of the retirement financial protection, i.e. the Mandatory Provident Fund (hereafter MPF) System, is also at risk under the negative impact of the financial tsunami last year. According to the statistics from Mandatory Provident Fund Schemes Authority (hereafter MPFA), the annualized internal rate of return of MPF system in 2008/09 fiscal years plunged by 25.9 per cent and equity fund recorded a loss of 39 per cent of its asset year on year.⁴ Many people saw a heavy loss in their MPF accrued benefits due to the volatile market and subsequently deferred their retirement plan.⁵
6. From a global perspective, major international organizations have attached great importance to the emergence of ageing population and urged that no effort should be spared in the provision of a comprehensive pension system. In January 2009, Organization of Economic Co-operation and Development (OECD) and the World Bank jointly issued a report “Pensions at a Glance Special Edition: Asia/Pacific,” saying that “many of Asia’s retirement income systems are ill-prepared for the rapid population ageing that will occur over the next two decades.”⁶ The report also listed out the problems facing these countries, such as low coverage of formal pension system, total amount of pensions cannot meet with the cost of living, etc. Unfortunately, Hong Kong has also faced such problems.
7. There is a general view that Hong Kong is becoming an ageing city. The population aged 65 or above have increased by 20 per cent to 879 600 from 2000 to 2008,⁷ much higher than the overall growth rate (i.e. 4 per cent) of the population at the same period of time. According to the estimation of the Census and Statistics Department, the old age population will increase rapidly starting from 2014, reaching 4 per cent per annum. It will rise to almost 2.3 million in 2036, accounting for 26.4 per cent of total population. By that time, the elderly dependency ratio will jump to 425 (per 1,000 persons aged between 15 and 64).⁸

⁴ MPFA, *Mandatory Provident Fund Schemes Statistical Digest*, March 2009, <http://www.mpfa.org.hk/english/quicklinks/quicklinks_sta/files/Mar_2009_Issue.pdf>

⁵ 〈公積金慘蝕 教授望延遲退休〉, *Mingpao*, 10 Feb 2009, p.F2.

⁶ OECD and World Bank, “Pensions at a Glance Special Edition: Asia/Pacific,” 2009, <http://www.oecd.org/dataoecd/33/53/41966940.pdf>.

⁷ Census and Statistics Department (hereafter: C&SD), *Hong Kong Annual Digest of Statistics, 2005 and Hong Kong Monthly Digest of Statistics, July 2009*.

⁸ C&SD, *Hong Kong Population Projections 2007-2036*, 2007.

8. In view of the above, there is an urgent need to review the existing pension system in a bid to map out a feasible solution that can generate sustainable supply of resources to take care of the elderly population in the long run. It would be of equal importance to an early start in stockpiling. By doing so, there will be extra reserve to meet the needs of a large elderly population that will occur within ten years. There is no room for complacency as the existing retirement financial protection cannot cope with the needs generated by the growing aging population. By that time, more resources might be dragged from other sectors to take care of the elders, which might trigger off social conflicts and even hinder our future development. In the worst case scenario, the elderly population might impose heavy financial burden and eventually dampen the financial healthiness of the future Government.

9. It is the right timing to reform our pension system as the health care reform cannot get the social support so far and is unlikely to kick start in the near future.⁹ Meanwhile, the software and hardware infrastructures of health care industry are incapable to meet social and economic developments in the near term. Although the Government has increased 70 first-year first-degree places for medicine and designate four pieces of lands for the development of new private hospitals,¹⁰ it will take years to bring about substantial changes. In contrast, many polling results indicated that majority members of the public supported the pension system reform.¹¹ The only key factor is the determination of the Government.

10. This paper aims at discussing the reform of Hong Kong pension system towards a multi-pillar model as suggested by World Bank. The reform proposal includes the introduction of a “Universal Old Age Pension Scheme” for elders, coupled with the improvement of the existing MPF system and social security. In part II, we briefly describe the development of Hong Kong pension system in the past. In part III, we highlight the weaknesses of the existing MPF system and social assistance. Part IV illustrates in what way the proposal of “Old Age Pension Scheme” tackle the problem of old age poverty. In part V, we propose remedial measures to fix the problems of the current MPF system. In the last part, we explore the way forward for future development of the pension system.

⁹ 〈醫療改革首輪諮詢七成支持自願醫保〉, *Ming Pao*, 20 December 2008, p.A9.

¹⁰ Information Services Department (hereafter: ISD), “LCQ19: Manpower requirements of healthcare staff”, 29 April 2009, <http://www.info.gov.hk/gia/general/200904/29/P200904290228.htm>; 〈醫療產業化 撥 4 地增 3 千病床〉, *Hong Kong Economic Times*, 8 April 2009, p. A22.

¹¹ 〈八成婦女支持全民退休保障〉, *Hong Kong Daily News*, 7 March 2009, p. A6 and 〈八成人支持設全民養老金〉, *Ta Kung Pao*, 27 August 2008, p.A7.

II. Major Discussions on the Pension System

C. Pre-MPF Debate

11. Thanks to the democratization of political system, there has been greater concern on citizens' well-being since the 80's. Public aspiration for retirement protection was escalating and various kinds of organizations had come up with a bundle of alternatives.
12. The hottest debate occurred in the years of 1994 and 1995 when the Government first proposed to establish a universal old age pension scheme. The advantages of the proposed scheme included immediate benefits, wider coverage and guaranteed income. However, some opposed that the scheme shifted the burden of old age protection from individuals to society and the pension benefit received was not related to the amount of contribution they have made.¹² In January 1995, the Government abandoned the scheme as "the public opinion was too divided."¹³ It was then replaced by the private occupation retirement scheme which has once been rejected by the Legislative Council (LegCo) in 1993. As the Government warned that this scheme would be the last option left,¹⁴ it was later materialized as the private MPF scheme in Dec 2000.
13. Over the past decades, several organizations, based on different schools of thoughts and ideologies, proposed different pension schemes. Taking into consideration their similarities in characteristics, these pension schemes can be categorized as:
 - Private occupational retirement schemes;
 - Universal old age pension (OAP) schemes; or
 - Hybrid schemes which combined the above two.Some proposals even included unemployment subsidy, insurance, elderly care allowance, etc. Please see Annex A for further details.
14. Three major controversial issues could be summarized from various proposed pension schemes as below:

¹² Legislative Council Secretariat, "Historical Development of Retirement Schemes in Hong Kong," 2005, <<http://www.legco.gov.hk/yr04-05/english/sec/library/0405fs18e.pdf>>.

¹³ Legislative Council Secretariat, "Historical Development of Retirement Schemes in Hong Kong," 2005, <<http://www.legco.gov.hk/yr04-05/english/sec/library/0405fs18e.pdf>>.

¹⁴ Legislative Council, "Official record of proceedings," 8 March, 1995, <http://www.legco.gov.hk/yr94-95/english/lc_sitg/hansard/h950308.pdf>.

- **Occupational Retirement Scheme vs. Universal Pension:** While the business sector was worried about the sustainability of the universal pension scheme, labour and welfare organizations accused the occupation scheme of being inequitable as it excluded unemployed persons and home carers (mainly women). Moreover, the former thought that pension benefits should be related to the contribution, whereas the latter tended to incorporate the element of wealth redistribution.
- **Government vs. Private Management:** Supporters of Central Provident Fund held that the prudent investment strategy and management style of the Government could help reduce the risk exposure of individuals. It was also believed that the management cost would be lower if the fund was run by the Government. Other people worried that the management under the leadership of the Government might be too conservative, resulting in a higher possibility of underperformed and low return.
- **Means test vs. Universal right:** Some argued that any forms of social assistance or pension system should be means-tested to ensure effective use of public resources and keep the scheme financially sustainable.¹⁵ Another camp insisted that it was a basic and universal right for elders to have a decent life. The existing arrangement was also criticized of stigmatizing the CSSA recipients and excluding many needy elders by stringent criteria.

D. Advocacy for OAP Scheme in Recent Years

15. After the implementation of the MPF system for a couple of years, the debates on the pension system resurfaced again. In 2004, as many as 50 non-governmental organizations (NGOs) jointly proposed a “Universal Retirement Protection Scheme” to re-advocate the setting up of OAP Scheme. In response to community aspiration, the LegCo have debated this issue:
 - In June 2006, the motion to set up a universal retirement protection was eventually negated by Functional Constituencies though there were totally 33 legislators voted yes.
 - In Nov 2008, another motion about studying OAP Scheme was passed. At the meeting, the Government disclosed that the Central Policy Unit had been conducting a study on retirement protection of the long run. However, the Government has not released the report or even the

¹⁵ Chow, Nelson and Chou, Kee-lee, “Sustainable pensions and retirement schemes in Hong Kong,” *Pensions*, Vol. 10, 2, 137-143.

progress of the study to date.

16. The crux of the debate focused on the necessity and feasibility of OAP Scheme. In fact, both camps shared the view that greater effort should be paid to address the problem of ageing population and the MPF system had room for improvement. However, there is a deep divide on the extra burden and income redistribution. We shall further discuss these issues in part IV. Please see Annex B for chronology of major events on pension system.

III. Weaknesses of the MPF system and Social Security

17. Through examining the MPF system and social security (i.e. mainly CSSA Scheme and OAA), we tried to point out how ineffective the existing pension system was.

C. Mandatory Provident Fund (MPF) System

18. Under the current system, both employees and employers are required to contribute 5 per cent of the employees' income on a regular basis. For employees, the contribution is subject to the maximum and minimum levels of income (currently \$20,000 and \$5,000 respectively). For employer, the contribution is only subject to the maximum level of income (\$20,000). For self-employed persons, the contribution rate is 5 per cent of their income, also subject to the same maximum and minimum levels of income.¹⁶ The personal account should be managed by a private fund trustee.

No protection for home carers and non-working population

19. The MPF system is not equitable in the sense that it is an occupational retirement scheme and therefore discriminates against those without a job. In light of this, the largest vulnerable group appears to be home carers who are mainly women. In 2008, only 53.1 per cent of female adults (aged 15 and above) participated in labour market as compared with 69.7 per cent of male. In addition, retired middle-aged people, the unemployed and jobless disabled persons are all excluded from the MPF system. In 2006, the estimated size of the unprotected groups was up to 2.4 million people.¹⁷

Inadequate pensions, particularly the low income group

20. the MPF system does not build in any mechanism to provide guarantee benefit. It is in essence a defined contribution (total amount equivalent to 10 per cent of worker's income) but not a defined benefit scheme. The level of pension will largely depend on the income level and the length of contribution period. Hence, the pension of low income earners, in particular those who earn below \$5,000,

¹⁶ MPFA, "Features of the MPF System: Contribution,"

<http://www.mpfa.org.hk/english/abt_mpfs/abt_mpfs_fms/abt_mpfs_fms_con/abt_mpfs_fms_con.html>.

¹⁷ Legislative Council, "Official record of proceedings," 26 April 2006, p.137,

<<http://www.legco.gov.hk/yr05-06/chinese/counmtg/floor/cm0426ti-confirm-c.pdf>>.

will be minimal as the accumulative total will only be composed of employers' contribution which is less than \$250 per month. Many female workers are subject to this category, 81 per cent of workers with monthly salary less than \$5,000 were female in 2008.¹⁸

21. For the middle-aged workers who participate in the MPF system in their 40's, their chance to get adequate MPF accrued benefit looks slim because of their short contribution period. For example, a worker aged 40 who earned \$6,000 monthly in 2000, his MPF accrued benefit would be only around \$297,000 when he retired at 65.¹⁹ It is far from enough for the retirement life. Only about one third of all employees have joined voluntary occupation retirement scheme before 2000.²⁰ In other word, two third of middle-aged workers over 40 (nearly 1 million) have no enough time to have their pension accumulated.
22. The OECD/World Bank report states that Hong Kong is different from other OECD countries in terms of gross replacement rate (pension as percentage of working income). Hong Kong is characterized by a lower replacement rate for low income earners (i.e. 35 per cent) when compared with that for average rate (38 per cent), while the situations in other OECD members are in reverse.²¹ Due to the non-redistributive nature of the MPF system, low income earners contribute less and thus have fewer pensions. Hence, most local pensioners cannot rely on the pension to meet their needs at old age in the future. A local academic even stated that the replacement rate of MPF for low income earners was only around 20 per cent.²²

Excessive risk exposure

23. A good pension system should be able to insulate individuals from negative impact of volatile market. The 2008 financial tsunami had adversely affected the performance of MPF investment, resulting in a loss of 25.9 per cent of net asset value in 2008/09 fiscal year. By end-March 2009, net investment returns recorded a negative growth since the inception of the MPF system.²³

¹⁸ C&SD, *Quarterly Report on General Household Survey*, 2009.

¹⁹ The projection is based on the following assumptions: his wage has 1 per cent annual increase since 2000, his MPF account has 5 per cent annual return rate and the management fee is 2 per cent per annum.

²⁰ Chow, Nelson and Chou, Kee-lee, "Sustainable pensions and retirement schemes in Hong Kong," *Pensions*, Vol. 10, 2, 137-143.

²¹ OECD and World Bank, "Pensions at a Glance Special Edition: Asia/Pacific," 2009, <<http://www.oecd.org/dataoecd/33/53/41966940.pdf>>.

²² Wong, Hung, 〈行公義，分風險，利全民〉，《社聯政策報》，April 2008.

²³ MPFA, *Mandatory Provident Fund Schemes Statistical Digest*, March 2009, <http://www.mpfa.org.hk/english/quicklinks/quicklinks_sta/files/Mar_2009_Issue.pdf>.

High management fee

24. The community is well aware of the fact that high management charge has eroded the returns of individual accounts. The research result of the Consumer Council (CC) in 2007 demonstrated that the per annum rate of administrative fees was 2 per cent of the assets in average, and the highest one was 3.87 per cent.²⁴ Even capital preservation funds, which mainly receive interests from banks, charge more than 1.5 per cent of administrative fees.²⁵ According to the study of CC, 1 per cent of annual fee will reduce 23 per cent of the retirement benefits over 40 years (on assumption of a 5 per cent investment return), or \$690,000 less for an accrued balance of \$3.05 million.²⁶ Despite wide coverage over local media, followed by massive criticisms across the territories, only 36 per cent of the funds had reduced their administrative fees one year after the situation was made known to the public.²⁷
25. High management fee can be seen as the result of market failure. At present, there is no guidance regarding the level of administrative fees of MPF schemes. It is assumed that market mechanism can help adjust or even pull down the administrative fee. The LegCo has just amended the ordinance to let employees choose their trustee freely. However, the effectiveness of this strategy is questionable as five major trustees already got 70 per cent of market share.²⁸

Lump sum payment

26. At present, MPF's participants could receive their pension in form of lump sum payment when retiring at 65. By doing so, it might let the receivers use their pension in a more flexible manner. However, some retirees, particularly those without careful financial planning, might spend all their pensions in a very short period of time and then expose themselves to a state of poverty. In sum, such an arrangement fails to enact the pension scheme a stable source of income for the retirees.

²⁴ 〈最高收費 3.87 per cent 隨時得不償失 強積金吞你一半滾存〉, *New Daily*, 17 July 2007, p.A4.

²⁵ Consumer Council, "Detailed information on MPF management fees," <<http://www2.consumer.org.hk/p381/mpf200807e.pdf>>.

²⁶ Consumer Council, "Wide variations in fees and charges of MPF funds," *Choice*, 369, 16 July 2007, <http://www.consumer.org.hk/website/ws_en/news/press_releases/p36901.txt>.

²⁷ 〈一年來僅 36 per cent 強積金基金減收費〉, *Ta Kung Pao*, 16 Jul 2008, p.A7.

²⁸ 〈積金局新主席上任 減費最棘手〉, *Hong Kong Economic Times*, 12 May 2009, p.A10.

Offset against the long service payment or severance payment

27. The accumulative effect of the retirement pension has been seriously eroded by the stipulation of the Employment Ordinance under which employer's MPF contribution and respective returns can be used to offset against the long service payment or severance payment. It is most likely for those being laid off to use the payment in their attempt to meet immediate needs in daily life rather than reserve them for retirement. From 2001 to 2005, a total of 3.6 billion MPF accrued benefit were offset,²⁹ equivalent to 3 per cent of net asset values. This clause puts employers under the temptation of laying off employees as it almost does not carry any extra costs or compensation. It is believed that the amount for offset will further increase in light of current economic downturn as well as the growing accrued benefits in MPF accounts.

Default contribution

28. The MPFA is incompetent in safeguarding employees' right. In 2008/09 fiscal year, there were nearly 43 000 cases of default contribution.³⁰ However, only 254 cases were convicted guilty for contributions in arrears. The weak prosecution policy only encourages employers to violate the law. Even worse, many workers who reported cases to MPFA were retaliated by employers.³¹ That makes most employees dare not to report their abuse cases. In sum, the MPFA failed to take an active role in monitoring employers' contribution even they have the authority to order MPF trustees to report any cases of default contribution.

D. Comprehensive Social Security Assistance (CSSA) Scheme & Old Age Allowance (OAA) Scheme

29. Despite the fact that CSSA Scheme was portrayed by the Government as "provides a safety net for those who cannot support themselves financially,"³² it is an imperfect solution to old aged poverty.

²⁹ Legislative Council, "Official record of proceedings," 26 April 2006, p.126, <<http://www.legco.gov.hk/yr05-06/chinese/counmtg/floor/cm0426ti-confirm-c.pdf>>.

³⁰ MPFA, Part E – Enforcement, "Number of investigated Complaints and Trustee Reported Cases by Type of Alleged Offences (1.4.2008 - 31.3.2009)" and "Number of Summons Applications Referred to the Police – by Nature of Offences Committed and by Results (1.4.2008 - 31.3.2009)", *Annual Report 2008-2009*, <http://www.mpfa.org.hk/english/quicklinks/quicklinks_pub/files/MPF_AR09_Eng_Full.pdf>.

³¹ 〈30個月不供款僱主被斥故意華香雞欠供積金或清盤〉, *Apple Daily*, 18 June 2009, p.A13.

³² Social Welfare Department, "Comprehensive Social Security Assistance (CSSA) Scheme," <http://www.swd.gov.hk/en/index/site_pubsvc/page_socsecu/sub_comprehens/>.

The amount of rate of CSSA Scheme for elderly person aged over 60 depends on their total value of assets, whether live with family members, level of disability, etc. In 2009, a single able-bodied elderly person can receive \$2,590 per month if he has assets less than \$35,000.³³ On top of the standard rate, CSSA Scheme provides supplements and special grants to cover rent, medical fees and transport, etc.

Means test excludes needy elders

30. In 1999, the Government had imposed a stringent rule for the application of CSSA Scheme. Those elderly people who live with family members but wish to apply for CSSA Scheme on their own are required to submit a statement on non-provision of financial support by their family members. It would be a great humiliation for family members who make such a statement. To get rid of any possible embarrassment, many 'offspring' refuse to do so even though they cannot support their elderly parents.³⁴ The number of elders who are thus not entitled to CSSA are reportedly as high as 100 000 people.³⁵ Social workers have already pointed out this problem since 1999.³⁶
31. The imposition of more stringent criteria had resulted in a sharp fall in annual increase in old age CSSA cases. The year-on-year increase on case number plunged to 1.7 per cent in the fiscal year of 2000-01, as compared with 7 per cent in the previous year, which is totally not in line with the bad economic situation from 1999 to 2001. It is believed that many elders in need are excluded from CSSA Scheme despite of severe economic hardship. The safety net has apparently failed to function properly. Details of the suppression on old age CSSA cases can be seen in the following table.³⁷

³³ Social Welfare Department, "Social Security,"

<http://www.swd.gov.hk/en/index/site_pubsvc/page_socsecu/sub_socialsecurity/#CSSAsr>.

³⁴ Hong Kong Social Workers' General Union, 〈《長者生活保障》社工總會意見書〉, 10 April 2007,

<<http://hkswgu.org.hk/web/frame.php?frameon=yes&referer=http%3A//hkswgu.org.hk/web/redirect.php%3Ftid%3D398%26goto%3Dlastpost>>.

³⁵ 〈生果金與長者生活補助〉, *HK Economic Journal*, 15 November 2007, p. P16.

³⁶ 〈社署斷綜援長者遭唾棄 社工：遺棄老人問題將不斷增多〉, *Ming Pao*, 4 June 1999, p.A3.

³⁷ C&SD, *Hong Kong Annual Digest of Statistic*, 2001 & 2004.

Fiscal Year	No. of Old Age CSSA Cases	No. of Cases Increase	Per Cent Change (%)
1996-97	98 765	-	-
1997-98	112 067	+ 13 302	+ 13.4
1998-99	124 304	+ 12 237	+10.9
1999-00	133 070	+ 8 766	+7.0
2000-01	135 409	+ 2 339	+1.7
2001-02	139 288	+ 3 879	+ 2.8
2002-03	143 585	+ 4 297	+ 3.0
2003-04	147 433	+ 2 966	+ 2.6
2004-05	150 399	+2 966	+2.0
2005-06	151 918	+1 519	+1.0
2006-07	152 788	+870	+0.5
2007-08	152 270	-518	-0.3

Old age poverty

32. The problem of old age poverty merits greater concern in view of the substantial decrease in household income of many elders in recent years. According to the 2006 by-census thematic report on older persons, the median monthly household income of 2-person domestic household with older persons decreased from \$8,000 in 1996 to \$6,606 in 2006.³⁸ Also, the number of households with older members and household incomes below \$6000 had increased by 70 per cent to 181 801 in the same period of time.
33. As expected, there are growing number of poor elders who have to rely on OAA as their major income source in recent years. In 2000/01, the year after implementation of new criteria for old age CSSA Scheme, the cases of OAA sharply increased by 7 899 cases as compared with 834 cases in the previous year.³⁹ At present, elderly persons aged between 65 and 69 with income and assets below the prescribed limits (i.e. the asset limit for a single person is \$171,000) or those aged 70 or above are entitled to OAA. Although OAA has been increased from \$705 to \$1,000 since early 2009, the amount is apparently not enough to cover the expenditure of a decent life at the old age.

³⁸ C&SD, *2006 By-census Thematic Report : Older Persons*, 2008.

³⁹ C&SD, *Hong Kong Annual Digest of Statistic*, 2001.

34. A survey conducted by the HKCSS in 2007 illustrated not only the seriousness of the problem of old age poverty but the inadequacy of the existing social security system that constitute the so-called 'safety net'. The survey had interviewed 96 elderly engaging in collecting recyclable materials. 60 per cent of the respondents were living with family members but only half of them received family support. It is astonishing to learn that 30 per cent had to rely on waste collection for survival.⁴⁰

Heavy burden on Government budget

35. Notwithstanding the low level of allowance, huge amount of public resource has been spent on elderly welfare at large. In 2006/07, the Government spent \$11.2 billion on social assistance for the elders aged 65 or above, which is equivalent to 34 per cent of total social welfare expenditure.⁴¹ It is very likely that growing elderly population seemingly impose fierce competition over public resources of which the well-being of other social groups might be undermined.
36. It would be difficult, if not impossible, for current budgetary pattern characterized by heavy reliance on general revenue to cope with any elderly-related spending in the long term. In recent years, the Government has relied more on some unstable income sources. For instance, up to a quarter of tax revenue came from stamp duty in 2007-08.⁴² This portion of revenue appears to be unsustainable as security and property markets are particularly vulnerable amid economic recession. Hence, it would be advisable to identify new source of income in a bid to address the needs arising from ageing population.

Sharp Increase in Elderly Population in the near future

37. It is foreseeable that the Government burdens will increase substantially in the coming 20 to 30 years simply due to the drastic and continuous increase of elderly population. According to official estimation, the population aged 65 or above may be as many as 2.3 million in 2036, 2.65 times when compared with

⁴⁰ 〈家人無力供養長者迫拾荒〉, *Hong Kong Daily News*, 6 March 2007, p.A10.

⁴¹ As there were additional payments to CSSA and OAA recipients in 07/08 and 08/09 fiscal years, we use the figures in 06/07 fiscal year. Information Service Department, "LCQ11: Elderly recipients of Comprehensive Social Security Assistance and Old Age Allowance," 8 July 2009, <<http://www.info.gov.hk/gia/general/200907/08/P200907080142.htm>>.

2008-09 Budget: Appendix B, <<http://www.budget.gov.hk/2008/eng/pdf/e-appen-b.pdf>>.

⁴² Inland Revenue Department, *Annual Report 2007-2008*, 2008, <http://www.ird.gov.hk/eng/ppr/are07_08.htm>.

that of 2006.⁴³ It is expected that the sharp increase in elderly population will begin in 2014. We might lose the chance to have an advanced trigger-off of a pension scheme that addresses the issue if we continue a wait-and-see attitude.

38. There might be a bleak future for public finance if no viable solution was in place to tackle excessive expenditure on social security in the near future. According to the report of the Task Force on Population Policy, the total expenditure of old age CSSA Scheme and OAA will be up to \$31 billion in 2031, tripling that of 2002-03 level.⁴⁴ This projection was underestimated simply because the decision to increase the OAA rate to \$1,000 had not been made by that time. It is also important to bear in mind that the proportion of elders on dole amounted to 19.7 per cent of the total elderly population in 2006⁴⁵ in comparison with 11.7 per cent in 1996.⁴⁶ The forecast of the Joint Alliance on Universal Retirement Protection presented a worst case scenario, estimating the rate might further soar to 24.4 per cent in 2034.⁴⁷

⁴³ C&SD, *Hong Kong Population Projection 2007-2036*, 2007.

⁴⁴ Task Force on Population Policy, *Report on Task Force on Population Policy*, 2003, <http://www.info.gov.hk/info/population/eng/pdf/report_eng.pdf>.

⁴⁵ Subcommittee to study the subject of combating poverty, LegCo, *Report on elderly in poverty*, June 2007, <<http://www.legco.gov.hk/yr06-07/english/hc/papers/hc0608cb2-2048-e.pdf>>.

⁴⁶ 爭取全民退休保障聯席, 《有關建議設立「全民退休保障計劃」的公眾諮詢文件》, 2005, <http://www.legco.gov.hk/yr04-05/chinese/hc/sub_com/hs51/papers/hs510721cb2-2297-01-c.pdf>.

⁴⁷ 爭取全民退休保障聯席, 《有關建議設立「全民退休保障計劃」的公眾諮詢文件》, 2005, <http://www.legco.gov.hk/yr04-05/chinese/hc/sub_com/hs51/papers/hs510721cb2-2297-01-c.pdf>.

IV. Universal Old Age Pension (OAP) Scheme

39. In view of the weaknesses of the MPF system and social security system, our existing pension system is unable to secure the elder persons to live on a decent way of life. Hence, we propose to revamp the pension system by introducing a universal OAP Scheme and also, to reform the MPF system practices. In this part, we mainly focus on the framework and operational arrangement of the proposed OAP system.

E. World Bank Multi-pillar Pension Model

40. The World Bank has constructed a conceptual framework in relation to the old age income support system, which can shed light on Hong Kong pension development. The framework focuses on how to achieve the core objectives of pension systems via “protection against the poverty in old ages” and “smoothing consumption from one’s work life into retirement”.⁴⁸ The pension proposal can be summarized as a “Five Pillar” Framework which is more flexible than mono pillar system.⁴⁹ The five pillars are:

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

41. More importantly, the World Bank emphasizes that future pension systems can only be relied on diversification of means in order to manage long term risks.⁵⁰ In light of this, the multi-pillar model consists of contradicting principles and values. For instance, zero and first pillars mainly focus on redistributing wealth, whereas second and third pillars are individual savings. Hence, we should not

⁴⁸ The World Bank, “The World Bank Pension Conceptual Framework,” 2007, <http://siteresources.worldbank.org/INTPENSIONS/Resources/395443-1121194657824/PRPNoteConcept_Sept2008.pdf.pdf>.

⁴⁹ Ibid.

⁵⁰ Ibid.

argue which pillar is better, we need *diverse means*.

42. If we apply the above framework on the existing pension system in Hong Kong, old age CSSA Scheme and OAA are equivalent to “zero pillar”; the MPF system and other occupation retirement schemes as “second pillar”; personal savings as “third pillar”; finally family support and the old age health care and housing subsidies as “fourth pillar.” In other words, Hong Kong lacks the “first pillar” to protect low earnings through financial assistance of pay-as-you-go manner.

F. Major Guidelines on OAP Scheme

43. There are some major guidelines regarding how OAP Scheme responds to the controversial issues we have discussed. We have to make our position clear before going into details.

From “three-pillar” to five-pillar pension system

44. For the sake of clarity, we should first highlight the difference between the five-pillar pension system suggested by the World Bank and the three-pillar” pension system undertaken in Hong Kong. According to the Hong Kong model, the three pillars are indeed social security financed by the Government, the MPF system and the voluntary personal saving respectively. The major difference is on the categorization of unfunded social security. The World Bank categorizes it as “zero pillar,” whereas the Government names it as “first pillar.”

	World Bank model	Hong Kong model
Non-contributory social security	Zero pillar	First pillar
Mandatory public pension	First pillar	--
Mandatory occupation retirement scheme	Second pillar	Second pillar
Personal savings	Third pillar	Third pillar
Non-financial support	Fourth pillar	--

45. In preparation for the emergence of ageing population, it would be appropriate to put in place a completed five-pillar pension system in Hong Kong. To this end, great effort should be paid to “installing” the “first pillar” in accordance with

World Bank's definition in the form of OAP Scheme which operated on a pay-as-you-go basis.

46. Under the proposed retirement protection scheme, different pillars have their own objectives and target groups. First, only small amount of elders with special needs should rely on the provision of social security (zero pillar) by the Government. Second, OAP Scheme (first pillar) should be served as a basic pension for all elders, in particular low income earners, to prevent elderly poverty and ensure a decent way of life. Third, the MPF system (second pillar) mainly safeguards middle income groups in an attempt to enjoy a higher living standard of theirs. Fourth, the middle and upper income earners depend more on individual savings (third pillar). Last, health care and housing programmes for elderly persons should be maintained to further support low earnings (fourth pillar).

Universal coverage

47. Hong Kong is well advanced in economic development with per capita GDP as high as HK\$240,327 (at current price) in 2008.⁵¹ All elderly people should be entitled to live on a decent way in their old age. Hence, OAP should be the basic right of all permanent citizens of Hong Kong, regardless of their contribution in the prime of their life. In view of this, the home carers and disabled persons should also be entitled to OAP.

Sustainable and adequate pension rate

48. It is of utmost importance to maintain the pension rate at a level of which the elders can meet their basic needs, in view of the fact that certain amount of elders will rely on it as major source of their income. To this end, the CSSA standard rate of a single able-bodied elderly person can be used as a benchmark. As a well-off society like Hong Kong, there should be no strong opposition that a pension rate should be slightly higher than the CSSA standard rate. Given that most of the elders only receive OAA right now, OAP can help enhance the living standard of all elderly people substantially.

⁵¹ C&SD, "Statistics Table of Gross Domestic Product (GDP), implicit price deflator of GDP and per capita GDP," <http://www.censtatd.gov.hk/hong_kong_statistics/statistical_tables/index.jsp?tableID=030>.

49. It would be of equal importance to strike a balance between the contribution rate and the pension rate. Seeing that many elderly might receive MPF payment while the underprivileged obtain social security for their special needs, the OAP rate should not be exorbitantly high to cause enormous burdens upon our society.

Extra contribution on top of MPF scheme

50. Extra contribution is a must for a smooth implementation of the new pension scheme as the beneficiaries are extended to the entire elderly population. As we pursue a better standard of living for those in their senility, the existing MPF system should be maintained so that MPF pensioners can receive an additional source of income. Against this background, the community as a whole would need to contribute more in one way or another. The working adults might be required to pay around two per cent of their monthly salaries as regular contribution. Employers would need to contribute at the same level too.
51. Government contribution should be an integral part of the proposed OAP scheme. The new pension scheme is expected to help release the growing expenditure on elderly allowance, but it is by no means a way for the Government to cut its related expenditure. The Government should continue to contribute the current spending on old age CSSA Scheme and OAA to the new scheme as well as take into consideration the price adjustment in the long run. It would be important to save more money for the elderly retirement system to meet future needs of the elderly in view of the fact that the Government was always criticized of allowing the annual budgetary surplus idle as fiscal reserve or giving out certain amount as sweeteners.

Cross generation support

52. To support the elder generation might be an ever-expanding task that needs to be shared by the community collectively. However, any proposed change on the pension scheme should not undermine the Chinese tradition of filial piety. It is of utmost importance to realize that working adults have been providing financial assistance to the elderly in need via either social assistance or family support. With reference to a report issued by the Commission on Poverty, 30 per cent of persons aged 15 or above supported their parents financially in

2001.⁵² The elderly dependency ratio was 154 per 1000 persons between 15 to 64 years old in the same year.⁵³

53. However, individual family members' support is no longer reliable due to rapid social and economic changes in the past decades. Comparatively speaking, the median monthly income of domestic households with older persons is lower than that of all domestic households. Taking examples from households of five persons and elderly, their income was 11 per cent less than 'the average' in 2006.⁵⁴ As the dependency ratio stood at 168 in 2006 and the growing trend is expected to reach 452, the younger generation would find their burden heavy to support the elderly on their own capacity.

Wealthier people contribute more

54. OAP Scheme might be more helpful in improving the livelihood of non-MPF participants and low income workers who might have made minimal contribution to their personal accounts. In light of this, there should be some degree of income redistribution in a bid to provide extra source of funding. Such an arrangement will result in a higher degree of equity across the community. Given that a flat contribution rate will be adopted and the majority of the working population would be required to contribute, our recommended contribution rate for OAP scheme is more equal and extensive than the existing tax system.

Equal share from the employers

55. Employers definitely have a prominent role to play in establishing a fairer society through their contribution to the proposed OAP scheme. Even compensation of employees is accounted for 50 per cent of total business cost (different industries have different shares⁵⁵), the total business cost may increase by less than 1 per cent even if the proposed OAP Scheme required a contribution of 2 per cent of employee's salaries.

⁵² Commission on Poverty, *Report of the Commission on Poverty*, 2006, <[http://www.cop.gov.hk/eng/pdf/ReportFull\(e\).pdf](http://www.cop.gov.hk/eng/pdf/ReportFull(e).pdf)>.

⁵³ C&SD, 2006 Population By-census: Summary Results, Table 3, p. 26.

⁵⁴ C&SD, 2006 Population By-census Thematic Report: Older Persons.

⁵⁵ For instance, in restaurant industry, the share is 49.1 per cent; in retail industry it is 30.2 per cent only, source: C&SD, *Report of 2007 Annual Survey of Wholesale, Retail, and Import and Export Trades, Restaurants and Hotels*, 2008

Government's responsibilities and burden

56. The proposed pension scheme should not impose heavy burden upon the Government. It would also be academic to expect the Government to assume greater responsibility in taking care of the elder persons without any extra sources of revenue. Hence, employees and employers have to assume the major portion of extra contribution to cover the expenditure. As there came frequent budgetary surplus in recent years, it might be advisable for the Government to designate part of them as reserve for the well-being of elder generation in the years to come. Such arrangement would by no means damage the financial healthiness and therefore violate the financial prudent principle of the Government.

Early Saving

57. Only early saving can ensure the OAP scheme a success. As the dependency ratio is still low at the moment, the scheme can obtain accumulated surplus to safeguard its sustainability. If we had started the scheme ten years later, all pension payment would have had to count on direct contribution. At such time, the contribution rate of OAP Scheme would be much higher.

Investment return that can offset price inflation

58. Despite the fact that OAP trustees should adopt a prudential approach in fund management so as to prevent possible capital erosion, the Government ought to set definite investment target for OAP Scheme at the level by which total investment return is able to offset price inflation. The return rate of the Exchange Fund could serve as an example for the future OAP Scheme. The compound annual investment return of the Exchange Fund in the period of 1994 to 2008 is 6.1 per cent.⁵⁶

Viable Financial Model

59. In sum, a viable financial model should build in major components that can help generate reliable source of income of long term:

- Extra resource from tripartite contribution;
- Cross generation support;

⁵⁶ Hong Kong Monetary Authority, *Annual report 2008*, <<http://www.info.gov.hk/hkma/eng/public/index.htm>>.

- Wealthier people contribute more;
- Early saving for the future;
- Investment return that can offset price inflation; etc.

G. Details of OAP Scheme

Eligibility

60. All permanent citizens aged 65 or above are eligible for the proposed pension. No means test should be imposed.

Pension rate

61. When the OPS system is first introduced in 2010, the pension rate should be as follows:
- \$3,000 per month, 15 per cent higher than the existing CSSA level (\$2,590 for a single able-bodied elderly person). It is about 57 per cent of low working income (i.e. half of the median income: \$5,250).
 - The pension rate should be adjusted every year to keep up with the trend of inflation. Only upward adjustment will be taken into consideration.

Financial Implication

62. In addition to current government expenditure on CSSA Scheme and other old age social security that would be reallocated to support the proposed pension scheme, it might require extra financial resources amounting to 4.3 per cent of workers' salaries for pension payment every year. In 2010, this part of income means an extra contribution of almost HK\$31 billion. (see Annex C)

Shares in contribution

63. There is little room for maneuver as the expenditure on the elderly population could not be disproportionately high. The contribution derived from current elderly allowance should continue to serve as the most crucial part of funding source. The working community including employees and employers should also share extra contribution for the universal old age pension scheme. The shares in contribution are as follows:
- *Employee and employers' contribution:*

- Employee and employers shall contribute the same rate: i.e. 1.9 per cent of employees' income;
- Workers who earn less than HK\$5,000 (2008 level) do not need to contribute, but their employers are still required to contribute. No capping on maximum contribution;
- *Government Contribution:*
 - Current elderly allowance will serve as a crucial source of income under the new pension scheme. In pecuniary terms, the total expenditure of elderly allowances is expected to be, in a rough sense, HK\$11.6 billion in 2009. The pension rates and the total expenditure should then be adjusted subject to the change of elderly population and Consumer Price Index (hereafter CPI);
 - HK\$25 billion should be injected into the account of the pension scheme every five years.⁵⁷

Proportion of contribution

64. Employees with monthly income less than \$30,000 accounted for 58 per cent of the entire employees' contribution. The remaining 12.7 per cent who earned \$30,000 or above per month contributed around 42 per cent.

Date of Commencement

65. The earlier the better as Hong Kong is going to pass the age of low dependency ratio which is conducive to capital accumulation for a long-term comprehensive retirement protection scheme. If OAP Scheme can be commenced in 2010, the accrued interest can be accumulated to \$190 billion before the annual balance is in red. If the scheme commenced in 2015, the accumulated surplus in 2024 will be \$86.6 billion only.
66. Short-term measures should be in place as it will take a few years before the OAP system came into full implementation. The Government should spare no time to kick start the capital accumulation process by making contribution to the pension account. According to the proposed schedule, the Government has to inject the first batch of HK\$25 billion to the pension account for the period of

⁵⁷ From 1997/98 to 2007/08 (totally 11 years), three fiscal years have surplus over \$60 billion (1997/98: \$86.87 billion; 2006/07: \$61.15 billion; 2007/08: \$123.65 billion). Source: *The 98-99 Budget, The 09-10 Budget*, <<http://www.budget.gov.hk/>>.

2010 to 2014. By doing so, it could help reduce the damage on accrued interest arising from the deferral in the legislation process.

H. Assumption and projection

67. Our projection is based on the following assumption:

i. **Population forecasts** in the years of 2009 to 2036 are based on the “Hong Kong Population Projections 2007-2036” by Census and Statistics Department.

ii. **Economic forecasts:**

Year	CPI (%)	Unemployment rate (%)
2008	4.3	3.3
2009	1.1	6.1
2010	1.6	7.6
2011	2.2	7.1
2012	2.8	6.6
2013	3.4	6.1
2014	4.0	5.6
2015	4.6	5.1
2016	4.2	4.6
2017-21(aag)	3.1	5.0
2022-26(aag)	3.9	5.0
2027-31(aag)	4.3	5.0
2032-36(aag)	3.5	5.0

Note: aag = average annual growth

Source: 2008 figures are based on official data;

Unemployment rate of 2008 is Q2 figure

Other forecasted figures of 2009 and after: Economic Research Analysis Ltd

iii. **Total employed persons:**

- The proportion of working population of 15-64 years (employed persons + unemployed persons) to total population of 15-64 years in 2008 will serve as a basis for projection with the assumption that the ratio will maintain at 2008 level
- Percentage of working population against population of 15-64 years in

2008:

$$[3\ 612\ 800/5\ 195\ 800]*100\%$$

$$= 69.53\%$$

- e.g. projected working population in 2009:
5 266 200*69.53% = 3 661 600
- e.g. projection of total employed persons in 2009:
3 661 600*(1-6.1%) = 3 438 400
(note: 6.1 per cent—forecasted unemployment rate)

iv. **Suggested pension rate:**

- Pension rate in 2010 levels
\$3,000
- e.g. suggested pension rate in 2011 :
\$3,000 X 101.6% (note: 1.6%—2010 forecasted CPI; adjusted every year according to the previous year's forecasted CPI)
=\$3,048

v. **Projection of annual pension subscription** in 2008 is based on the statistics of employed persons' "monthly employment earnings" provided by the Census and Statistics Department.⁵⁸ From 2009 to 2036, the projections will be adjusted according to the change in projected number of employed persons and forecasted CPIs. Meanwhile, real wages are assumed to increase by 1 per cent per annum.⁵⁹

vi. **Government allowances:** Proportion of old age CSSA and OAA recipients to total elderly population (i.e. 19.7 per cent and 54 per cent respectively) in 2006 serve as a basis for the projection of total government allowance in the coming 25 years. The level of government allowances will be adjusted in accordance to change in CPI.

vii. **Expected return rate of investment** is 6.1 per cent per annum between 2010 and 2036, based on the average return rate of Exchange fund from 1994 to 2008.⁶⁰

viii. OAP Scheme is scheduled to implement in 2010.

⁵⁸ C&SD, Table 5.9 (Q2), *Quarterly Report on General Household Survey, 2008*.

⁵⁹ The real wages increase of selected industry sectors from Sep 1992 to Sep 2008 is 1.26%. Source: C&SD, Table B, *Quarterly Report on Wage and Payroll Statistics, September 2008*.

⁶⁰ Hong Kong Monetary Authority, *Annual report 2008*, <<http://www.info.gov.hk/hkma/eng/public/index.htm>>.

V. Reform on the MPF system and Social Security system

C. Reforming the MPF scheme

68. In addition to filling the gap of existing pension system by putting in place the OAP system as the first pillar, it would be of equal importance to improve the MPF system so as to make the “second pillar” more reliable. Below is a list of recommended measures for public consideration:

- i. Current arrangement regarding lump sum payment should be replaced with monthly payment. This can ensure a reliable and stable source of income in order to support long retirement life among retirees.
- ii. The Government should take drastic measures in a bid to safeguard the drain on accrued interest with respect to the high management fees. Direct government intervention through provision of low risk investment products like government bond appears to be an effective measure to harness market players. As an issuer, the Government can exercise its bargaining power on the level of management fee. The Government is advised to take one step forward, allowing purchase of government bonds among individual pensioners as a kind of long-term pension saving, providing the trustees’ insistence to collecting high management charges. By doing so, the pensioners can have real choices and therefore exercise market force to force private funds to reduce-management fees of theirs.
- iii. The Employment Ordinance should be amended in a sense to have the clause ‘MPF accrued benefit or occupational retirement scheme benefit can be offset against the long service payment or severance payment’ cancelled. Such amendment is about to safeguard the MPF benefits among grassroots workers on one hand, make clear employers’ responsibility of paying their employees’ pension on the other.
- iv. MPFA should strictly enforce the law to safeguarding employees’ rights on retirement protection through establishment of a more effective monitoring tool. Seeing that the current MPF system has been in force for over 8 years, employers should have adjusted cost structure of their company and therefore no excuse for any defaulted contribution. In view of this, MPFA should consider setting up a monitoring mechanism, stipulating MPF trustees to report cases of defaulted payment at their utter convenience, which is similar to the present practice of requiring financial institutions to report suspected money laundering cases.

D. Reforming the old age CSSA Scheme

69. After the full implementation of the OAP system, most CSSA and OAA recipients are expected to turn to the new pension scheme. Hence, only CSSA Scheme should be maintained to cater for the special needs of the elder persons, which serve as the ultimate safety net for those who have financial need even though they have been offered minimum pensions already.

70. If the Government had refused to consider OAP Scheme as a viable supplement for future retirement protection scheme, or been reluctant to put it in place in the near future, the existing vetting and application procedures of CSSA system should have been reviewed in an urgent manner. The Government should resume the application criteria before 1999 as soon as possible. By doing so, the elders who live with family members but wish to apply for CSSA Scheme on their own should be entitled an independent income and asset limits separating from their family members. Moreover, applicants are only required to declare whether they have received family support in replacement of the statement on non-provision of financial support by family members.

VI. The Way forward

71. There should be a mindset change regarding the basic philosophy of retirement protection. Seeing that dole recipients, in the past, only accounted for a small proportion of population, social security system in Hong Kong was being applauded as a safety net capable of safeguarding well-being of the needy and disadvantaged. There is no room for complacency at the very moment of which one fifth of the elderly population, or more, has to rely on the social security assistance for their living. It is likely that ‘poverty of the elders’ would become an issue of primary concern. As the Government, on behalf of Hong Kong, has been proud of itself being Asia’s World City, it is not acceptable that a large portion of poor elder persons have been suffering in poverty as many of them being considered the outcast under the purview of the current social security system. Hence, it would be of utter importance to revise the framework of retirement protection that is envisaged to providing universal coverage over the elderly population for future sake.
72. To fill the gap between the current MPF system and social security system under which home-carers and other non-MPF contributors are being neglected should be the focal point for future framework of retirement protection. The multi-pillar model of pension system suggested by the World Bank appears to be a remedial alternative. Under the proposed pension system, both above-mentioned systems should be maintained because, as a matter fact, they can take good care of the well-being of the pensioners and those in special needs respectively. The introduction of universal OAP Scheme, through the sharing of collective responsibility, is expected to address the needs of impoverished elders being marginalized ‘in the past’.
73. The proposed OAP scheme should be enacted in an urgent manner as it takes time to accumulating enough savings as well as through prudent investment. As the dependency ratio will maintain at a low level in the next decade, expenditure of pensions would be relatively small. Thus the earlier to set up OAP Scheme, the more chance for it to be sustained.
74. Consensus building will be of utmost importance to pave the way for a smooth implementation of the proposed OAP system. In addition to active involvement of major stakeholders like the labour and business sectors, the Government should take a proactive role not only to mobilize public participation in future

deliberation but also launch the preparation of legislation with an early start.

75. Short-term measures should be in place as it will take a few years before the OAP system came into full implementation. The Government should spare no time to kick start the capital accumulation process by contributing HK\$25 billion to the pension account this year.
76. It would be important to review and redress the shortcomings of the MPF system in the light of its forthcoming 10th anniversary. However, renovation of the existing MPF system is not the cure-all for the absence of universal retirement protection. A pension system covering the whole population is regarded as the right medicine and therefore should be included in the upcoming review.



Ensure the Financial Security of the Elderly
— Research Report on Universal Old Age Pension Scheme

The Professional Commons
February 2010

Advisory Board

Mr George Cautherley

Research Team

Mr KM Chan

Mr POON Man Hon (to November 2009)

Annex A: Different schemes proposed by the Government and various organizations

Privately Managed Provident Fund System

Name of org.	Name of proposal	Year	Coverage	Income Sources/ Contribution rate	Benefit	Government Management
HK Council of Social Service	Compulsory retirement scheme ¹	1992	Retired employees aged 65 or above	<ul style="list-style-type: none"> ● Employee: 5% ● Employer: 5% 	Retired employee can get the pension after 65	No
HK Government	Community-wide Retirement Protection System ²	1993	Retired employees aged 65 or above	<ul style="list-style-type: none"> ● Employee: 5% ● Employer: 5% 	Retired employee can get the pension after 65	No
HK Federation of Insurers	Retirement Protection Scheme ³	1994	Retired employees aged 65 or above	<ul style="list-style-type: none"> ● Employee: 5% ● Employer: 5% 	Retired employee can get the pension after 65	No

¹ 顏文雄, 〈百家爭鳴：評香港退休保障之爭論〉, <<http://www.swik.org.hk/SWIKPortal/DesktopDefault.aspx?tabIndex=0&tabid=50&ItemID=288>>

² *Ibid.*

³ Hong Kong Federation of Insurers, *Retirement Protection Scheme*, 1994

Old Age Pension Scheme (+ Mandatory Provident Fund System) (i.e. One layer or two layers)

Name of org.	Name of proposal	Year	Coverage	Income Sources/ Contribution rate	Benefit	Government Management
HK Federation of Trade Unions	Three layers retirement proposal (MPF, Social Security, CSSA) ⁴	1992	Elders aged 65 or above	MPF <ul style="list-style-type: none"> ● Employee: 2% ● Employer: 4% Social Security <ul style="list-style-type: none"> ● Employee: 1% ● Employer: 2% ● Government: 3% 	<ul style="list-style-type: none"> ● MPF will be saved in employees' private accounts. ● All elders can get 25-35% of average income. (More contribution can get more pensions.) 	Yes (on social security only)
HK Democratic Foundation	Old Age Pension ⁵	1994	Elders aged 65 or above	<ul style="list-style-type: none"> ● Employee: 2 or 1% ● Employer: 2% ● Government: 2% 	\$2100 pension rate.	Yes
HK Government	Compulsory contributory Old Age Pension Scheme ⁶	1994	Elders aged 65 or above with conditions and all elders aged 70 or above	<ul style="list-style-type: none"> ● Employee: 1.5% ● Employer: 1.5% ● Government: \$10 Billions in one off 	\$2,300 pension rate (citizens over 65 who have contributed for more than 10 years and all citizens over 70)	Yes

⁴ Hong Kong Federation of Trade Unions, 《老有所養—工聯會退休保障綜合方案》, 1992

⁵ Hong Kong Democratic Foundation, "Old Age Pension (Letter to Principal Assistance Secretary for Education and Manpower)," <<http://www.hkdf.org/pr.asp?func=show&pr=48>>

⁶ HK Government, *Consultation paper : an Old Age Pension Scheme for Hong Kong*, 1994

Business and Professionals Federation of HK	Mandatory private pension scheme ⁷	1994	Elders aged 65 or above with conditions	MPF <ul style="list-style-type: none"> ● Employee: 2.5% ● Employer: 2.5% Elderly Income security <ul style="list-style-type: none"> ● Absorbed by Tax 	<ul style="list-style-type: none"> ● MPF will be saved in employees' private accounts ● Elderly can get \$0 to \$5,000 income security, depending on their amounts of income and assets 	Yes (on elderly income security only)
Justice and Peace Commission of HK Catholic Diocese	Old Age Fund ⁸	1994	Elders aged 65 or above	<ul style="list-style-type: none"> ● Increase profit tax by 4% ● Cancel the standard tax rate of salary tax 	\$2,300 and the future rate should eventually increase to 30% of median income	Yes

⁷ Business and Professionals Federation of Hong Kong, *Income security for the elderly : the BPF alternative : BPF's response to Government's Consultation Paper on the Old Age Pension Scheme*, 1994

⁸ Justice and Peace Commission of HK Catholic Diocese, 《「長者金」老年保障方案：兼回應政府「老年退休金計劃」諮詢文件》，1994

Professor HO lok-sang	A Universal Fully Funded Pension Scheme ⁹	1997	Elders aged 65 or above	<ul style="list-style-type: none"> ● Individual citizens fund retirement needs of their respective generation (e.g. age 50) ● Government should subsidize the low income group 	<ul style="list-style-type: none"> ● Each member in the same generation has equal benefit ● The benefit depends on the contribution rate, return rate and the population of the generation 	Yes (only on subsidizing low income group)
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⁹ HO, lok-sang, "A Universal Fully Funded Pension Scheme", *Contemporary Economic Policy*, Vol. XV, July 1997

Recent Proposals

Name of organization.	Name of proposal	Year	Coverage	Income Sources/ Contribution rate	Benefit	Government Management
HKSAR Government	MPF	2000	Retired employees aged 65 or above	<ul style="list-style-type: none"> ● Employee: 5% ● Employer: 5% 	Retired employee can get a lump sum pension	No
HK Social Security Society	Five-in-One Social Security Scheme (OAP, MPF, Care allowance, retraining subsidy and central work accident insurance) ¹⁰	2000	Elders aged 65 or above	<ul style="list-style-type: none"> ● Employee: 3% ● Employer: 4.8% ● Government: 2.2% 	<ul style="list-style-type: none"> ● 7% of the contribution for OAP. \$3,000 for all¹¹ ● 2% will be saved in employees' private accounts ● \$2,000 Care Allowance for each elder per year ● \$1,000 to \$4,000 retraining subsidy for unemployment ● 0.2% contribution for the work accident insurance 	Yes

¹⁰ 香港社會保障學會, 〈五合一綜合社會保障方案整體構思〉, <<http://www.acad.polyu.edu.hk/~ssyhsze/HKSSS/5-1-general.htm>>

¹¹ The feasibility was doubted by the Government. See Health and Welfare Bureau, *Discussion Paper on LegCo panel on Welfare Services*, 11 December 2000, <<http://www.legco.gov.hk/yr00-01/english/panels/ws/papers/b413e03.pdf>>

Joint Alliance on Universal Retirement Protection	Universal Retirement Protection Scheme ¹²	2005	Elders aged 65 or above	<ul style="list-style-type: none"> ● Employee: 2.5% (contribution to MPF reduced from 5% to 2.5%) ● Employer: 2.5% (contribution to MPF reduced from 5% to 2.5%) ● Government: total expenditure on elderly CSSA and old age allowance. 	<ul style="list-style-type: none"> ● MPF system will be maintained (but the total contribution changes to 5% only) ● \$2,500 Old Age Pension for all¹³ ● The pension can be raised to \$3,000 if profit tax rate increases by 1.75 % for those companies with yearly profits over \$10 million ● Other medical and housing benefits for the elderly should be remained 	Yes
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¹² Hong Kong Council of Social Services, *Old Age Pension Scheme Consultation Paper*, <http://www.hkcss.org.hk/prs/consultation_papers/oaip_recommendation_final.pdf>

¹³ In 2006, the Government refused to use MPF contribution for OAP: Legislative Council, Official Record of Proceedings, 28 June 2006, <http://www.legco.gov.hk/yr05-06/chinese/counmtg/floor/cm0628ti-confirm-c.pdf>. But in 2009, the Government has changed the attitude and promised to discuss the issue with LegCo after CPU has finished study: Labour and Welfare Bureau and Food and Health Bureau, "Motion on "Old Age Allowance and Universal Retirement Protection System" Progress Report", January 2009, <<http://www.legco.gov.hk/yr08-09/english/counmtg/motion/cm1105-m2-prpt-e.pdf>>

Annex B: Chronology of major events on pension system

Year	Event
1966	G. Williams finished the “ Report on the feasibility of a survey into social welfare provision and allied topics in Hong Kong ” and suggested establishing a social security system for old ages. ¹
Apr 1967	Government issued “ A report by the Inter-Departmental Working Party to consider certain aspects of social security. ” The report recommended a social security scheme instead of a personal retirement scheme. ² However, the recommendation was not accepted. ³
Oct 1987	Governor Wilsons refused to set up any retirement schemes. ⁴
Oct 1992	HK Government issued a consultation paper entitled “ A Community-wide Retirement Protection System ”, in which proposed the introduction of a privately-managed mandatory contributory retirement scheme. However, due to little support within the community, the Government did not pursue the proposal after consultation. ⁵
Jul 1994	The Government issued a consultation paper to seek public comments on OAP. Views were generally divided. ⁶ (But many NGOs said most of the opinions supported the proposal. ⁷)
Jan 1995	The Government announced to abandon OAP as public opinion was too divided. (But many NGOs accused it was because of the pressure from employers.)
Mar 1995	The Government moved the motion to introduce a mandatory, privately managed occupational retirement scheme.
Jul 1995	The Mandatory Provident Fund (MPF) Scheme Ordinance was passed in Legislative Council (LegCo).

¹ Gertrude Williams, *Report on the feasibility of a survey into social welfare provision and allied topics in Hong Kong*, 1966

² HK Government, *A report by the Inter-Departmental Working Party to consider certain aspects of social security*, 1967

³ Choi, Frankie, 《港式退休保障政策(強積金)的政治經濟學》, 2007, <http://www.franklenchoi.org/monograph/pe_retirement_protection.html> .

⁴ *Ibid.*

⁵ Legislative Council Secretariat, “Historical Development of Retirement Schemes in Hong Kong”, 2005, <<http://www.legco.gov.hk/yr04-05/english/sec/library/0405fs18e.pdf>> .

⁶ *Ibid.*

⁷ Choi, Frankie, 《港式退休保障政策(強積金)的政治經濟學》, 2007, <http://www.franklenchoi.org/monograph/pe_retirement_protection.html> .

Dec 2000	MPF came into operation.
2005	Joint Alliance on Universal Retirement Protection , an alliance has more than 50 NGO members, proposed a Universal Retirement Protection Scheme. ⁸
Jun 2006	LegCo passed the motion to urge Government to establish an OAP. ⁹
Nov 2008	LegCo passed the motion to urge Government to establish a universal retirement protection. ¹⁰
Jan 2009	Government reported that Central Policy Unit was studying the future retirement protection. ¹¹ (the study has been conducted since 2005)

⁸ Joint Alliance for Universal Retirement Protection,
<<http://www.pensionforall.org.hk/html/index.php>> .

⁹ Legislative Council, "Official Record of Proceedings", 28 June 2006,
<<http://www.legco.gov.hk/yr05-06/english/counmtg/hansard/cm0628-translate-e.pdf>>

¹⁰ Legislative Council, "Official Record of Proceedings", 5 November 2008,
<<http://www.legco.gov.hk/yr08-09/english/counmtg/hansard/cm1105-translate-e.pdf>>

¹¹ Legislative Council, "Official Record of Proceedings", 28 June 2006,
<<http://www.legco.gov.hk/yr05-06/chinese/counmtg/floor/cm0628ti-confirm-c.pdf>>

Annex C: Contribution and Expenditure of Universal Old Age Pension System

	A		B	C	D	E	F	G	H	I	J	K	L	M	N
						=A*D*12				=F+G+H		=(H+J)/L	=I+J	=L-E	
Year	Elderly 65+ Years	% of yearly change	Total Population (15-64 Years)	Employed Persons (15-64 Years)	Suggested Monthly Pension Rate	Annual Pension Payment	Pension subscription on Employees (1.9%)	Pension subscription on Employers (1.9%)	Pension subscription on Government	Total Pension Subscription	CSSA and OAA to Elders 65+	Total Gov't Contribution as % of Total Contribution	Total Tripartite Contribution	Yearly Surplus/ Deficit	Accumulative Surplus
	(,000)		(,000)	(,000)	(\$)	(\$ billions)	(\$ billions)	(\$ billions)	(\$ billions)	(\$ billions)	(\$ billions)		(\$ billions)	(\$ billions)	(\$ billions)
2008	879.6		5,195.8	3,493.6			12.81	13.18	0.00	26.00					
2009	885.4	0.66%	5,266.2	3,438.4			13.28	13.66	0.00	26.94	11.16				
2010	900.9	1.75%	5,324.7	3,421.0	3,000.0	32.43	13.49	13.88	25.00	52.37	11.48	57.13%	63.85	31.41	31.41
2011	919.2	2.03%	5,377.7	3,473.8	3,048.0	33.62	14.06	14.46	0.00	28.51	11.90	29.44%	40.41	6.79	40.12
2012	952.2	3.59%	5,412.5	3,515.1	3,115.1	35.59	14.68	15.10	0.00	29.78	12.60	29.73%	42.37	6.78	49.35
2013	989.0	3.86%	5,433.9	3,547.9	3,202.3	38.00	15.38	15.82	0.00	31.20	13.45	30.13%	44.65	6.64	59.00
2014	1031.3	4.28%	5,442.3	3,572.3	3,311.2	40.98	16.16	16.63	0.00	32.79	14.50	30.67%	47.29	6.32	68.92
2015	1081.8	4.90%	5,438.4	3,588.6	3,443.6	44.70	17.05	17.54	25.00	59.59	15.82	54.13%	75.41	30.71	103.83
2016	1129.6	4.42%	5,437.2	3,606.7	3,602.0	48.83	18.10	18.61	0.00	36.71	17.28	32.01%	53.99	5.17	115.33
2017	1178.4	4.32%	5,434.3	3,589.7	3,753.3	53.07	18.95	19.49	0.00	38.44	18.78	32.83%	57.22	4.15	126.51
2018	1228.5	4.25%	5,432.6	3,588.6	3,869.6	57.05	19.72	20.28	0.00	40.00	20.19	33.54%	60.19	3.14	137.37
2019	1285.8	4.66%	5,420.9	3,580.9	3,989.6	61.56	20.48	21.07	0.00	41.55	21.79	34.40%	63.34	1.78	147.53
2020	1347.6	4.81%	5,406.0	3,571.0	4,113.3	66.52	21.26	21.87	25.00	68.14	23.54	52.95%	91.68	25.16	181.69
2021	1413.9	4.92%	5,394.4	3,563.3	4,240.8	71.95	22.09	22.72	0.00	44.81	25.47	36.24%	70.27	-1.68	191.09
2022	1485.2	5.04%	5,381.7	3,555.0	4,372.3	77.92	22.94	23.60	0.00	46.53	27.58	37.21%	74.11	-3.81	198.94
2023	1560.0	5.04%	5,363.7	3,543.1	4,542.8	85.04	23.98	24.67	0.00	48.65	30.10	38.22%	78.75	-6.29	204.78
2024	1634.5	4.78%	5,345.1	3,530.8	4,719.9	92.58	25.07	25.79	0.00	50.86	32.77	39.18%	83.62	-8.95	208.32
2025	1709.5	4.59%	5,325.4	3,517.8	4,904.0	100.60	26.20	26.95	25.00	78.15	35.61	53.28%	113.76	13.16	234.19
2026	1783.5	4.33%	5,306.3	3,505.2	5,095.3	109.05	27.39	28.17	0.00	55.56	38.60	40.99%	94.15	-14.90	233.58
2027	1849.1	3.68%	5,294.5	3,497.4	5,294.0	117.47	28.67	29.49	0.00	58.15	41.58	41.69%	99.73	-17.74	230.09
2028	1926.5	4.19%	5,269.1	3,480.6	5,521.6	127.65	30.04	30.90	0.00	60.94	45.18	42.57%	106.12	-21.53	222.59
2029	1995.0	3.56%	5,251.7	3,469.1	5,759.1	137.87	31.53	32.43	0.00	63.96	48.80	43.28%	112.75	-25.12	211.05
2030	2054.2	2.97%	5,243.3	3,463.5	6,006.7	148.07	33.15	34.09	25.00	92.24	52.41	53.51%	144.64	-3.42	220.50
2031	2101.0	2.28%	5,247.6	3,466.4	6,265.0	157.95	34.93	35.93	0.00	70.86	55.90	44.10%	126.77	-31.19	202.76
2032	2138.0	1.76%	5,260.4	3,474.8	6,534.4	167.65	36.87	37.93	0.00	74.80	59.33	44.24%	134.13	-33.51	181.62
2033	2173.3	1.65%	5,273.5	3,483.5	6,763.1	176.38	38.63	39.73	0.00	78.36	62.43	44.34%	140.78	-35.59	157.10
2034	2206.2	1.51%	5,287.3	3,492.6	6,999.8	185.32	40.47	41.63	0.00	82.10	65.59	44.41%	147.69	-37.63	129.06
2035	2234.9	1.30%	5,303.2	3,503.1	7,244.8	194.30	42.42	43.63	25.00	111.05	68.77	52.15%	179.82	-14.48	122.45
2036	2261.0	1.17%	5,319.7	3,514.0	7,498.4	203.45	44.47	45.74	0.00	90.20	72.00	44.39%	162.21	-41.24	88.69

Annex C: Contribution and Expenditure of Universal Old Age Pension System

Remarks

A	2008 is actual figure (Ref: Hong Kong Monthly Digest of Statistic--Table 1.3 Mid-year population). The population figures from 2009 to 2036 are based on the "Hong Kong Population Projection 2007-2036" by Census and
B	2008 is actual figure (Ref: Hong Kong Monthly Digest of Statistic--Table 1.3 Mid-year population). The population figures from 2009 to 2036 are based on the "Hong Kong Population Projection 2007-2036" by Census and
C	2008 is actual figure (Ref: Quarterly Report on General Household Survey, 2Q 2008 — Table 1.1). The projected percentage of employed persons (with number of unemployed persons being excluded from the working population) to total population of 15-64 years is assumed unchanged at 2008 level. In the second quarter of 2008, the percentage is around 69.53% (3 612 800/5 195 800). Based on the above percentage we project the Projected working population of 2009 = 5 266 200*69.53% = 3 661 600. Forecasted unemployment rate of 2009: 6.1% Total projected employed persons in 2009 = 3 661 600*(1-5.6%) = 3 438 400
D	Suggested pension rate in 2010: \$3,000 . Rate adjusted every year according to the pervious year's Comp CPI Inflation rate e.g. Suggested pension rate in 2011 is \$3,048 = \$3,000 X 101.6% (2009 forecasted Comp CPI inflation rate is 1.6%)
F, G, H	Projection of pension subscription in 2008 is based on the monthly employment earnings of individual employees . From 2009 to 2036, projections adjusted according to number of employed persons and Comp CPI inflation
J	Proportion of CSSA and OAA receivers to all elders remains unchanged at 2006 level, i.e. 19.7% and 54% respectively, which served as the basis for projection to government subsidy to the elderly. Allowances adjusted according to Comp CPI Inflation rate. (See Annex E)
N	The return rate of investment is 6.1% per annum between 2010 and 2036. According to the annual return rate of Exchange fund from 1994 to 2008 (Ref: HKMA Annual report: Reserve Management). The Government is required to inject \$250 billion every five years, i.e. 2010, 2015, 2020, 2025, 2030 and 2035. OAP is assumed to be implemented in 2010.

Annex D: Projection of Pension Subscription of Employees and Employers in 2008

Monthly Salary Range	Median Monthly Salary	Number of Working Population	% of total workers	Monthly Pension Contribution per Person	Employee		Employer	
					Total Monthly Contribution	% of contribution	Total Monthly Contribution	% of contribution
(\$)	(\$)	(,000)		(\$)	(\$ millions)		(\$ millions)	
<3,000	1,500	131.2	3.7%	28.5			3.74	0.3%
3,000-3,999	3,500	277.1	7.8%	66.5			18.43	1.7%
4,000-4,999	4,500	98.0	2.8%	85.5			8.38	0.8%
5,000-5,999	5,500	142.6	4.0%	104.5	14.90	1.4%	14.90	1.4%
6,000-6,999	6,500	223.0	6.3%	123.5	27.54	2.6%	27.54	2.5%
7,000-7,999	7,500	245.6	7.0%	142.5	35.00	3.3%	35.00	3.2%
8,000-8,999	8,500	266.2	7.5%	161.5	42.99	4.0%	42.99	3.9%
9,000-9,999	9,500	240.1	6.8%	180.5	43.34	4.1%	43.34	3.9%
10,000-11,999	11,000	326.0	9.2%	209.0	68.13	6.4%	68.13	6.2%
12,000-13,999	13,000	286.1	8.1%	247.0	70.67	6.6%	70.67	6.4%
14,000-15,999	15,000	259.6	7.3%	285.0	73.99	6.9%	73.99	6.7%
16,000-17,999	17,000	98.2	2.8%	323.0	31.72	3.0%	31.72	2.9%
18,000-19,999	19,000	104.0	2.9%	361.0	37.54	3.5%	37.54	3.4%
20,000-24,999	22,500	252.4	7.1%	427.5	107.90	10.1%	107.90	9.8%
25,000-29,999	27,500	140.9	4.0%	522.5	73.62	6.9%	73.62	6.7%
30,000-34,999	32,500	129.0	3.7%	617.5	79.66	7.5%	79.66	7.3%
35,000-39,999	37,500	57.6	1.6%	712.5	41.04	3.8%	41.04	3.7%
40,000-44,999	42,500	56.8	1.6%	807.5	45.87	4.3%	45.87	4.2%
45,000-49,999	47,500	30.2	0.9%	902.5	27.26	2.6%	27.26	2.5%
50,000-59,999	55,000	61.7	1.7%	1045.0	64.48	6.0%	64.48	5.9%
60,000-79,999	70,000	50.3	1.4%	1330.0	66.90	6.3%	66.90	6.1%
80,000-99,999	90,000	22.8	0.6%	1710.0	38.99	3.7%	38.99	3.5%
>100,000	120,000	33.5	0.9%	2280.0	76.38	7.2%	76.38	7.0%
Monthly Contribution		3532.9	100.0%		1,067.90	100.0%	1098.45	100.0%
Annual Contribution					12,814.83		13181.38	

Source

Quarterly Report on General Household Survey (Q2 2008) – Table 5.9

Annex E: Projection of Government Expenditure on CSSA and OAA

Year	Elderly 65+ Years	CSSA rate	Total allowance	OAA rate	Total allowance	Total Government Expenditure
			19.7% of all elderly 65+		54% of all elderly 65+	
	(,000)	(\$)	(\$ billions)	(\$)	(\$ billions)	(\$ billions)
2009	885.4	2,590	5.42	1,000	5.74	11.16
2010	900.9	2,618	5.58	1,011	5.90	11.48
2011	919.2	2,660	5.78	1,027	6.12	11.90
2012	952.2	2,719	6.12	1,050	6.48	12.60
2013	989.0	2,795	6.53	1,079	6.92	13.45
2014	1031.3	2,890	7.05	1,116	7.46	14.50
2015	1081.8	3,006	7.69	1,160	8.14	15.82
2016	1129.6	3,144	8.40	1,214	8.89	17.28
2017	1178.4	3,276	9.13	1,265	9.66	18.78
2018	1228.5	3,378	9.81	1,304	10.38	20.19
2019	1285.8	3,482	10.58	1,344	11.20	21.79
2020	1347.6	3,590	11.44	1,386	12.10	23.54
2021	1413.9	3,701	12.37	1,429	13.09	25.47
2022	1485.2	3,816	13.40	1,473	14.18	27.58
2023	1560.0	3,965	14.62	1,531	15.48	30.10
2024	1634.5	4,120	15.92	1,591	16.85	32.77
2025	1709.5	4,280	17.30	1,653	18.31	35.61
2026	1783.5	4,447	18.75	1,717	19.84	38.60
2027	1849.1	4,621	20.20	1,784	21.38	41.58
2028	1926.5	4,819	21.95	1,861	23.23	45.18
2029	1995.0	5,027	23.71	1,941	25.09	48.80
2030	2054.2	5,243	25.46	2,024	26.95	52.41
2031	2101.0	5,468	27.16	2,111	28.74	55.90
2032	2138.0	5,703	28.83	2,202	30.51	59.33
2033	2173.3	5,903	30.33	2,279	32.10	62.43
2034	2206.2	6,110	31.86	2,359	33.72	65.59
2035	2234.9	6,323	33.41	2,441	35.36	68.77
2036	2261.0	6,545	34.98	2,527	37.02	72.00

Remarks:

1. Proportion of the total number of elderly receiving CSSA (in 2006):
=168300/852796=19.7%
2. Proportion of the total number of elderly receiving Old Age Allowance (in 2006):
=460870/852796=54%

Sources:

http://www.legco.gov.hk/yr05-06/english/panels/ws/ws_cssa/papers/ws_cssa0626cb2-2504-1e.pdf
<http://www.legco.gov.hk/yr06-07/english/hc/papers/hc0608cb2-2048-e.pdf>