

**PROPOSED OLD AGE LIVING ALLOWANCE
THE PROFESSIONAL COMMONS SUBMISSION
TO
LEGISLATIVE COUNCIL PANEL ON WELFARE SERVICES**

The Professional Commons agrees there is both a valid and an urgent need for the introduction of the proposed means tested Old Age Living Allowance (OALA) of HK\$2,200 for elders aged 65 and above.

However, The Professional Commons would like to emphasize that the nature of this means tested allowance is a poverty alleviation measure and although applied to the elderly, it should in no way be regarded as part of the retirement protection regime and therefore is not a substitute for the further development of retirement protection. The OALA can serve as a bridging measure until further retirement protection enhancement can be introduced and it may well continue to have a long term bridging role in certain circumstances.

If this allowance was applied without means testing, it would in effect become a de facto Old Age Pension and at the rate of \$2,200 a very inadequate one at that, particularly if elders aged 70 and over were precluded from entitlement to the existing non-means tested OAA. By 2024 the OALA would require additional funding of \$32.32 billion per annum and by 2039 additional funding of \$53.02 billion per annum, in 2012 dollars.

To provide these additional funds from general revenue would require increases in the top rate of salaries tax from the current 17% to 20% by 2024 and to 22% by 2039 and in addition increases in profits tax from the current 16.5% to 19.5% by 2024 and 21.5% by 2039.

We would also like to draw members' attention to the fact that the current average monthly payout to CSSA recipients aged 65 or above is \$4,315 per month. If the OALA was provided on a non-means tested basis, it would be pretty much inevitable that pressure would build up to increase the monthly rate to that of the average monthly CSSA payout for recipients aged 65 and above. The additional funding required would be \$85.3 billion in 2024 and \$125.7 billion in 2039, in 2012 dollars. This would require an increase in the

top rate of salaries tax to be increased to 27% by 2039 and profits tax to increase to 26.5% by 2039.

With regard to the further enhancement of the provision of retirement protection, The Professional Commons has previously developed its proposals for a Universal Old Age Pension of HK\$3,000 per month, inflation adjusted, paid for by contributions of 2.5% of salary each from employees and employers as well as a Government contribution element. This Universal Old Age Pension would be in addition to the present MPF, which itself is in urgent need of reform to reduce administration costs and deliver better returns.

In welcoming the introduction of the proposed OALA, The Professional Commons calls upon the Government to provide an unequivocal undertaking that it will engage with the community to further enhance the provision of retirement protection, following the principles set out by the World Bank of “Five Pillar” protection, with the objective of reaching a community consensus on the further enhancement of our retirement protection system within two years. In the final analysis, there are broadly two options for the missing “Pillar” in Hong Kong’s retirement protection regime, a mandatory Old Age Pension, funded by contributions from employees and employers that are in addition to the MPF contributions, or if additional contributions are not acceptable to the community, a means tested Old Age Pension funded out of general revenue without the need to increase taxation rates. This is such a crucial decision that it should be taken neither by the Government, nor by politicians, but through community consensus. When all is said and done, in one way or another it is the community’s money that is involved, so it is only right that the decision is made by the community.

(The Professional Commons would like to thank Mr David Webb of Webb-site.com for the provision of the cost of the OALA on a non-means tested basis in the narrative above and in the table in Annex I. For further details, please see the article Help the Needy, Not the Needless at Webb-site.com)

ANNEX I

FINANCIAL IMPLICATIONS OF OLD AGE LIVING ALLOWANCE IF NON-MEANS TESTED (DE FACTO OLD AGE PENSION)

<i>Population 65+, mid-year</i>	<i>2012</i>	<i>2024</i>	<i>2039</i>
CSSA	133,000	133,000	133,000
Higher DA 0.8%	7,796	13,496	19,885
Non-collecting 2%	19,490	33,740	49,712
OALA	814,214	1,506,764	2,283,003
Total population	974,500	1,687,000	2,485,600
<i>Cost \$bn (2012 dollars)</i>	<i>2012</i>	<i>2024</i>	<i>2039</i>
CSSA	6.89	6.89	6.89
Higher DA 0.8%	0.26	0.45	0.67
Non-collecting 2%	-	-	-
OALA	21.50	39.78	60.27
Total	28.64	47.12	67.82
Less: 2012 costs	(14.80)	(14.80)	(14.80)
Cost increase \$bn	13.84	32.32	53.02