Full Range of Support for Retirement Protection

Policy Address Press Conference
19 January 2017

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THE UNDERLYING THINKING OF THE PACKAGE

- This is the first time since 1997 the Government has dealt with this subject. We have devised a package of practicable proposals to respond thoroughly to the views of the public and stakeholders, and to demonstrate Government's determination in enhancing the well-being of elderly persons
- The current four retirement protection pillars complement each other. The package aims to strengthen each of the pillars to provide comprehensive protection
- Comprehensive retirement protection is not only about financial support. Elderly persons have different retirement needs. Some need to rely on social security; others may only require some living allowances; and the rest are self-supporting. We need to have targeted measures to meet the needs of elderly persons with different conditions
- The package represents inter-disciplinary collaboration across relevant bureaux to provide more comprehensive protection for retirees through appropriate services
- The proposed enhanced measures are affordable to society and financially sustainable and will not affect adversely other retirement protection pillars
- While enhancing protection for employees, the package also takes into account employers' affordability, labour relations, and Hong Kong's overall competitiveness

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

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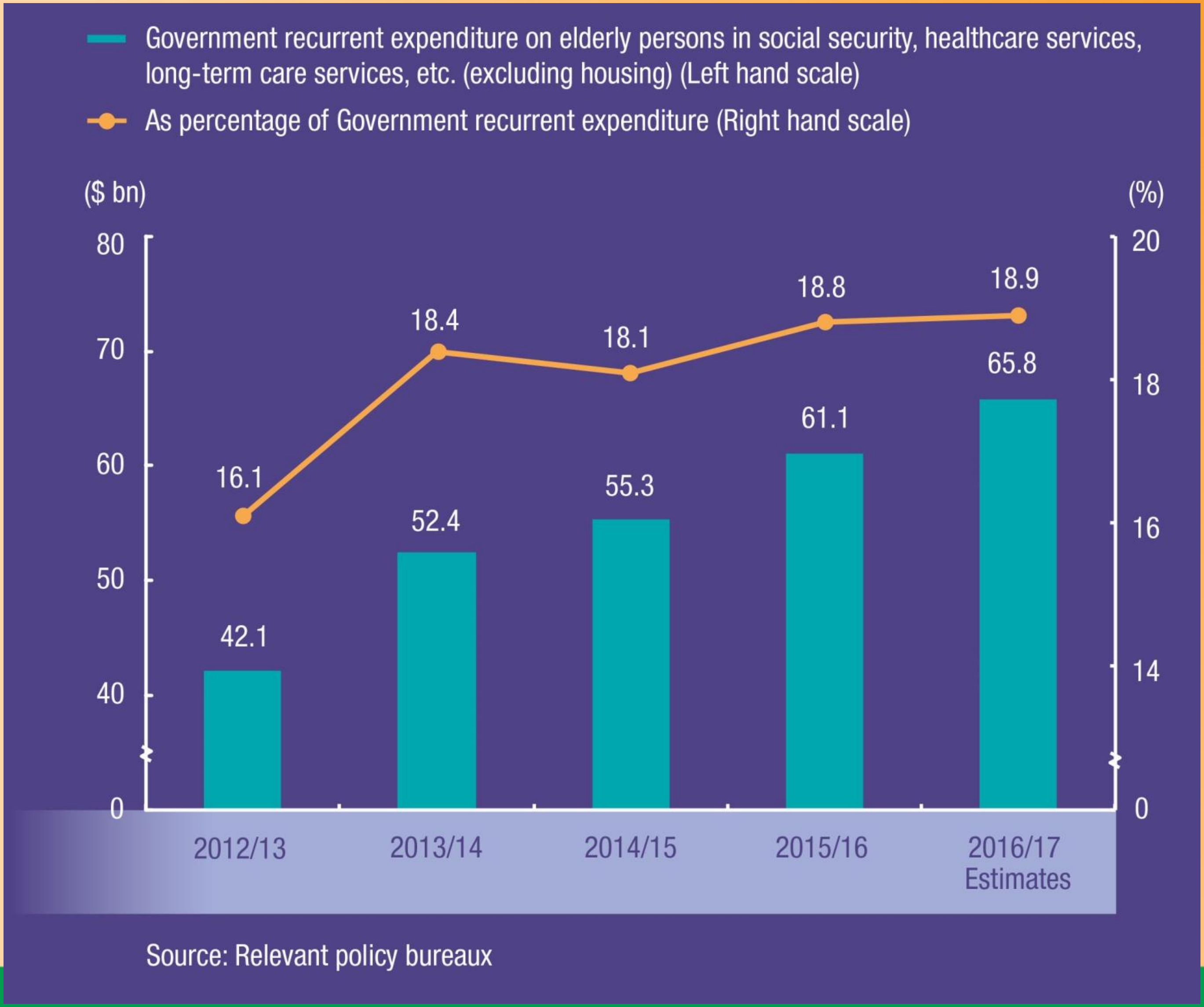

THE COMMUNITY SHOULD INVEST MORE IN RETIREMENT PROTECTION TO COPE WITH THE AGEING CHALLENGE

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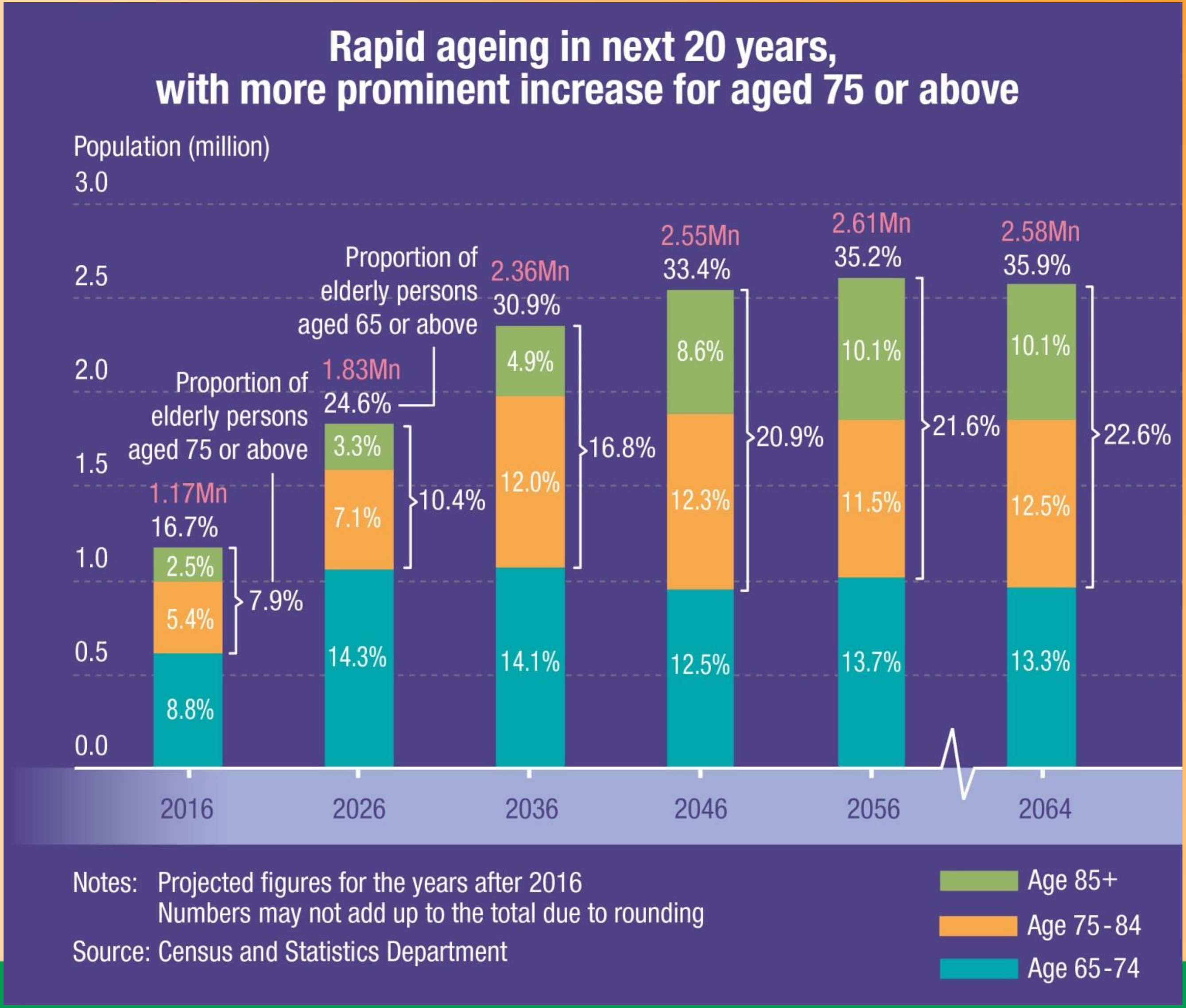

The community should invest more in retirement protection to cope with the ageing challenge (Cont'd)

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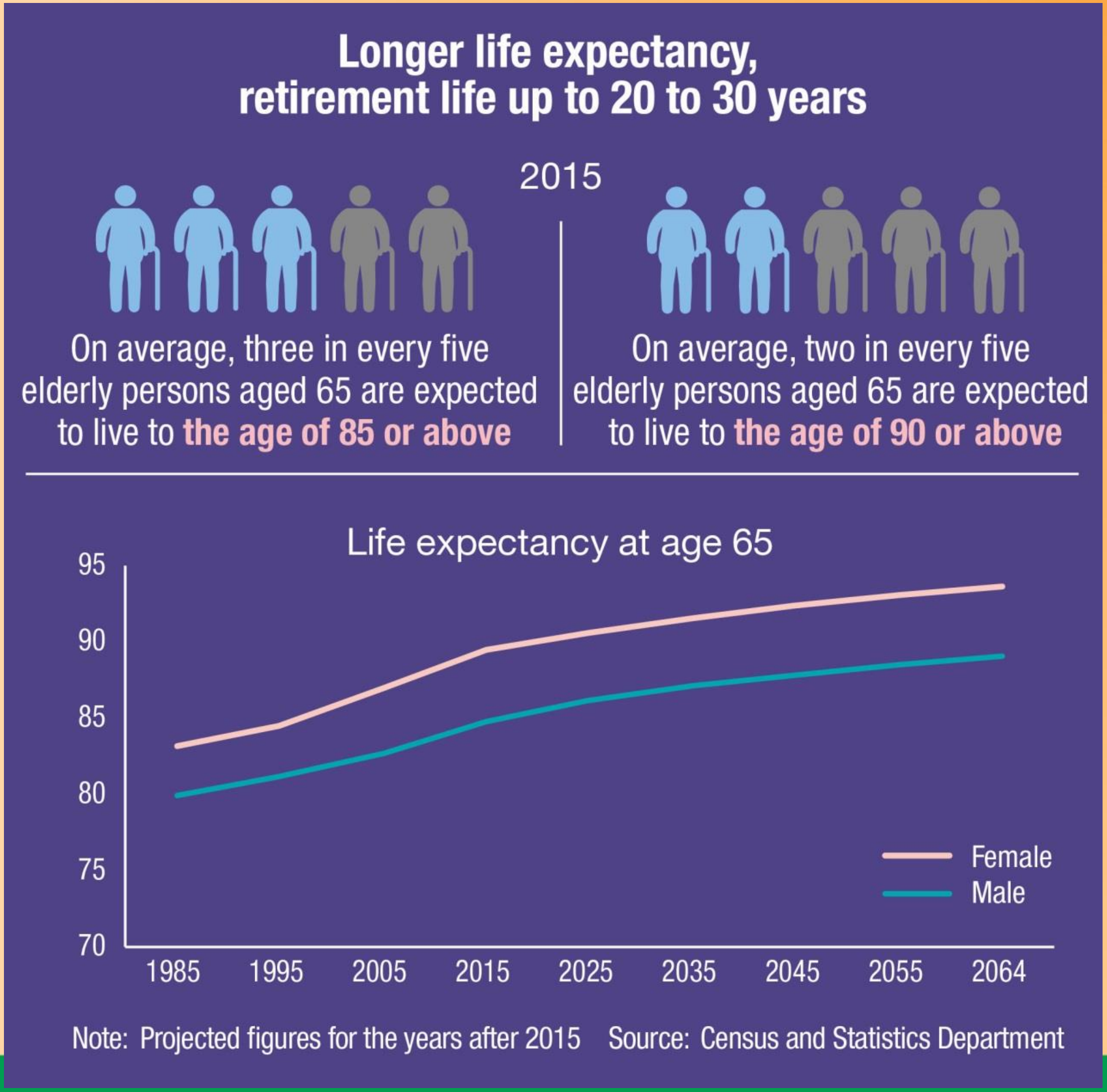
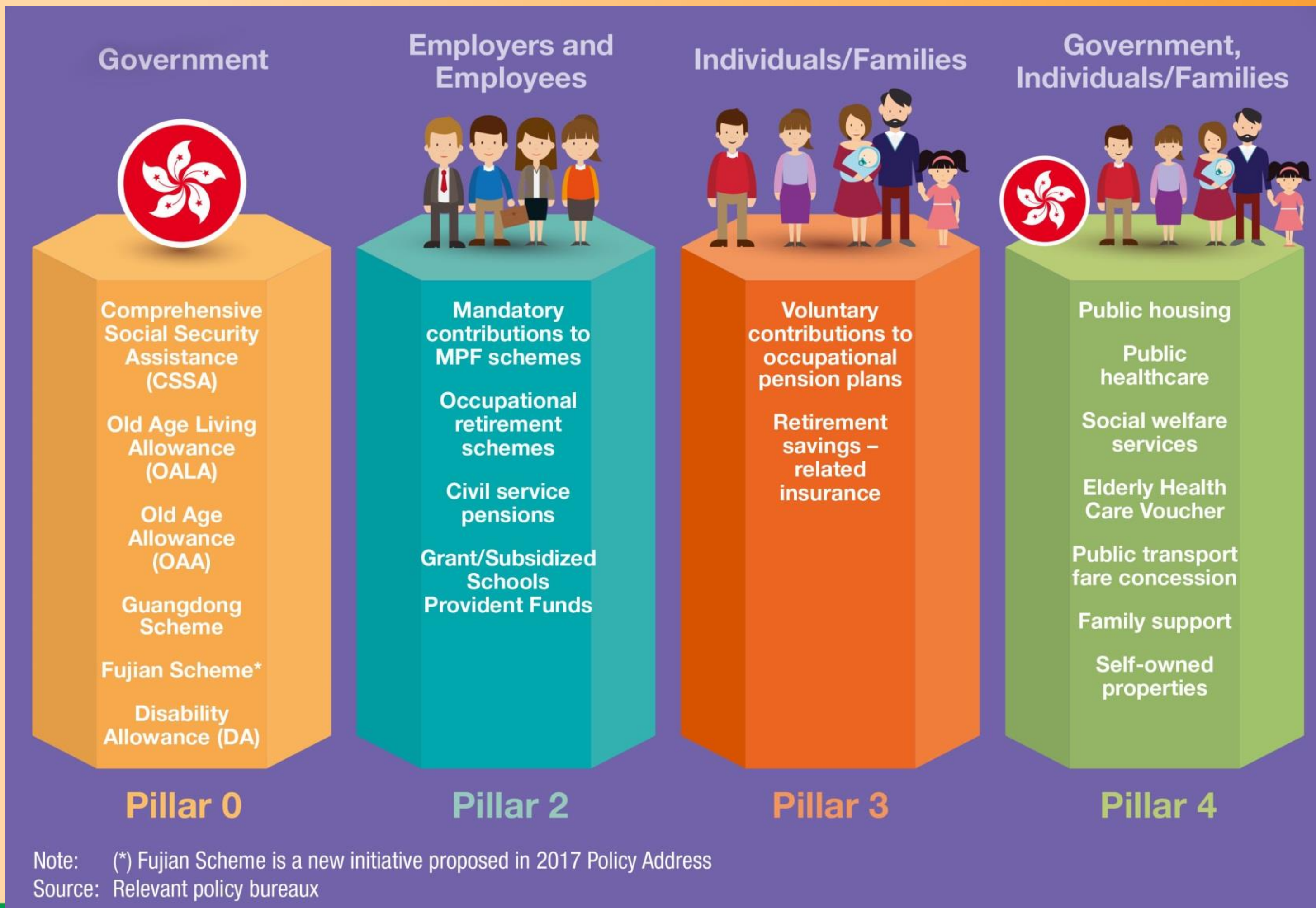


ADOPTING THE WORLD BANK'S MULTI-PILLAR APPROACH

- The current multi-pillar model advocates shared responsibility and multiple channels complementing each other



Adopting the World Bank's multi-pillar approach (Cont'd)

- While offering financial assistance, the Government also attaches great importance to providing in-kind support that can meet the needs of elderly persons

ADOPTING THE WORLD BANK'S MULTI-PILLAR APPROACH (CONT'D)

- The six-month public engagement exercise entitled "Retirement Protection Forging Ahead" concluded in end June last year. After consulting the public, we consider that the existing multi-pillar retirement protection system should continue. At the same time, we should improve each pillar while maintaining the sustainability and financial viability of the system
- The directions for making enhancements comprise:
  - **enhancing the social security pillar** so that it can perform well the function of a safety net
  - **improving the public services pillar**, in particular to help elderly persons meet their medical expenses
  - **enhancing the MPF pillar** to maximise the protection for employees
  - **making the voluntary savings pillar more assured** by exploring financial products to help elderly persons make good use of their assets to increase the stability of their post-retirement investment income

ENHANCING THE SOCIAL SECURITY PILLAR

- Enhancing the Old Age Living Allowance (OALA) in two aspects:
  - adding a higher tier of assistance for elderly persons with more financial needs who are eligible for the allowance, i.e. elderly singletons with assets not exceeding $144,000 or elderly couples with assets not exceeding $218,000, by providing a higher monthly allowance of $3,435 per person (equivalent to the standard rate for able-bodied/50% disabled CSSA elderly singleton recipients, about one-third more than the existing OALA payment ($2,565 with effect from 1 February 2017))
  - relaxing the existing asset limits for OALA, from $225,000 to $329,000 for elderly singletons and from $341,000 to $499,000 for elderly couples, to benefit more elderly persons with financial needs
- The two measures could benefit about 500 000 elderly persons (or around 40% of the elderly population) in the first year of implementation. Each person will receive more than $30,000 to $40,000 each year
- Counting in CSSA and non-means tested OAA and DA, the social security pillar could cover about 910 000 or around 74% of elderly in the first year of implementation

ENHANCING THE MULTI-TIERED SOCIAL SECURITY SYSTEM TO PROVIDE BETTER PROTECTION FOR NEEDY ELDERLY

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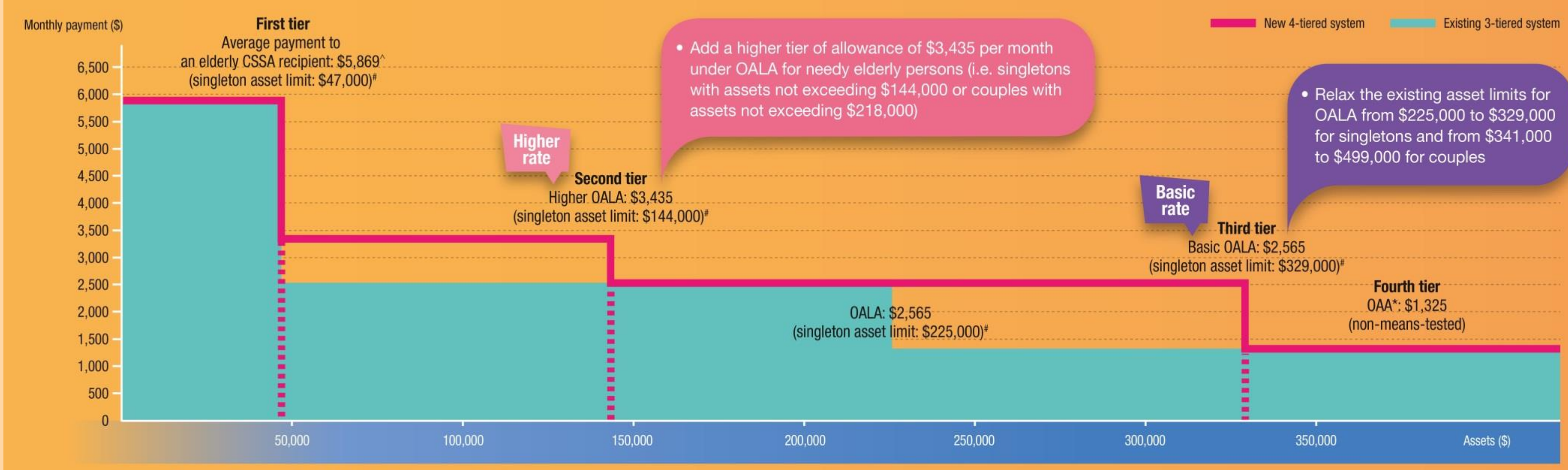


Notes: (#) There are different asset limits for families (CSSA) or couples (OALA)
(^) Based on a broad-brush estimation, the average monthly CSSA payment for singleton recipients aged 60 or above in 2016 was $5,869
(*) OAA is available for elderly persons aged 70 or above

ENHANCING THE SOCIAL SECURITY PILLAR

CSSA

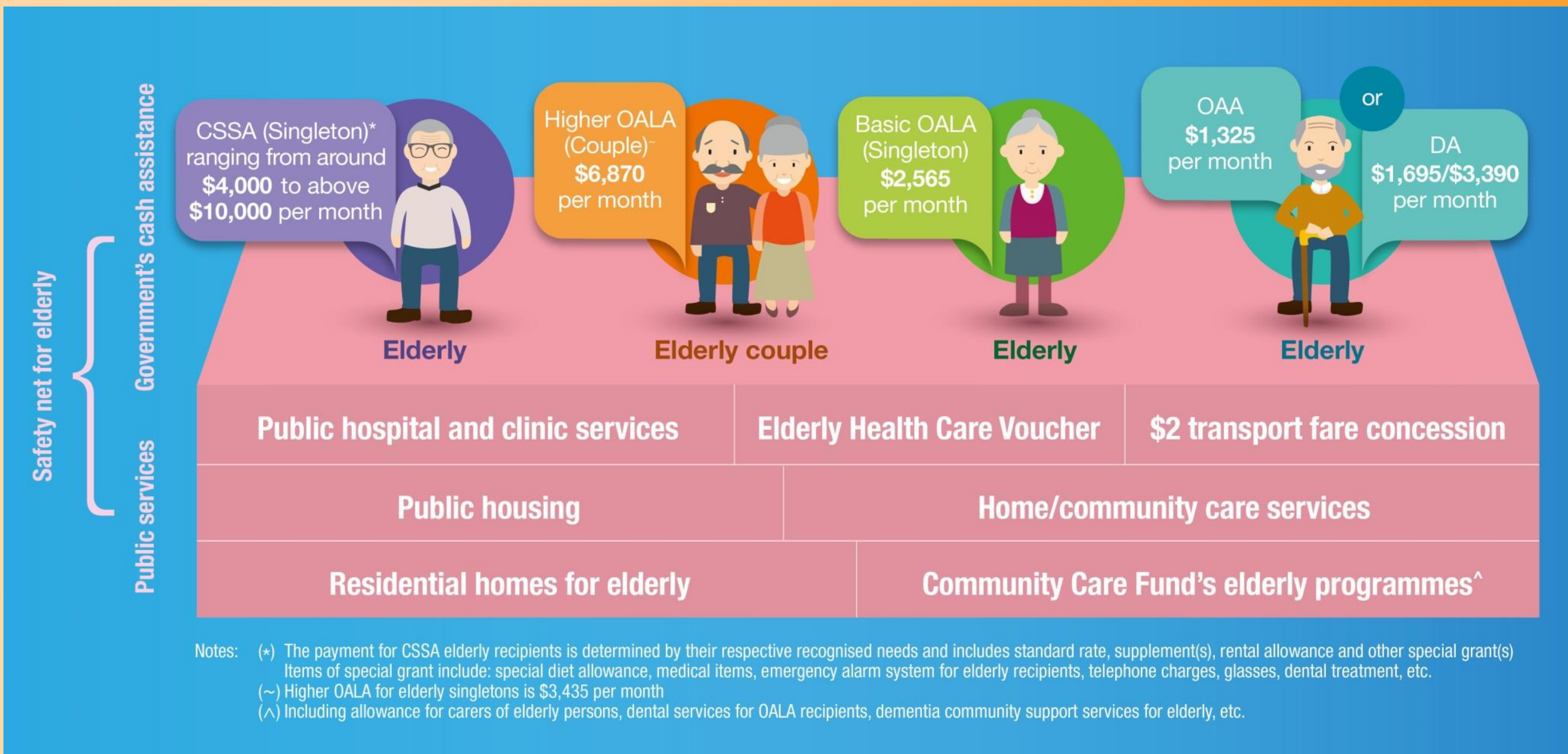
- While maintaining the requirement that applicants under the CSSA Scheme will need to apply on a household basis, abolish the arrangement for the relatives concerned to make a declaration on whether they provide the elderly persons who apply for CSSA on their own (e.g. an elderly person who does not live with his children) with financial support (the so-called "bad son statement"). The information should be submitted by the elderly applicants only
- Propose raising the eligibility age for elderly CSSA from 60 to 65 to align with the direction of our population policy on the extension of retirement age. Elderly persons aged between 60 and 64 who are receiving CSSA before the new policy takes effect will, however, not be affected

MEETING THE HEALTHCARE NEEDS OF ELDERLY PERSONS BETTER

- Propose allowing older and more needy OALA recipients, i.e. aged 75 or above and with assets not exceeding $144,000 for singletons or $218,000 for couples, to enjoy free public hospital and clinic services. In the first year of implementation, 140 000 elderly persons will be benefited
- Propose lowering the Elderly Health Care Voucher's eligibility age from 70 to 65, to benefit about 400 000 more elderly persons in the first year of implementation to receive $2,000 per annum for private primary healthcare services
- Provide the Hospital Authority additional recurrent resources of $2 billion with effect from 2017-18 to improve the medical services for elderly persons 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

SUBSIDISED BENEFITS FOR ELDERLY

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



ENHANCING THE MPF SYSTEM – ABOLISHING THE "OFFSETTING" ARRANGEMENT PROGRESSIVELY

Current system

- Four major functions of severance payment (SP)/long service payment (LSP)-
  - financial relief for dismissed employees
  - compensation for long-term service for dismissals not because of redundancy nor employees' own faults and three "involuntary" resignation (old age, ill health or death in service)
  - protection against dismissals
  - retirement protection
- Minimum qualifying years of service – SP (2 years); LSP (5 years)
- Same formula for calculating SP/LSP entitlement -
  - Last month's wage × 2/3 (i.e. 66.7%) × years of service
- According to accounting standards, LSP provisions should be recognised as an expense in the profit and loss account and are tax deductible. No need to set aside assets to back up the LSP liability

Enhancing the MPF System – Abolishing the "Offsetting" Arrangement Progressively (Cont'd)

Background of "offsetting" arrangement

- "Offsetting" provisions originated in the Employment Ordinance when SP (1974) and LSP (1986) were introduced and before the MPF System was put in place, allowing employers to use gratuities attributable to employees' years of service or contributions made for employees under retirement schemes to offset SP and LSP payable

2014 and 2015 "offsetting" claims

Year	MPF benefits withdrawn for "offsetting"	Number of claims	Number of employers involved	Average "offsetting" amount per employer	Number of employees involved	Average "offsetting" amount per employee
2014	$3.006 billion	45 400	15 600 (5.7%)	$192,800	43 500 (1.7%)	$69,200
2015	$3.354 billion	47 300	14 400 (5.2%)	$233,000	45 300 (1.8%)	$74,100

Note: Figures in ( ) denote the percentage of enrolled employers subject to the "offsetting" arrangement
Source: MPF Authority

- The Mandatory Provident Fund Schemes Ordinance (MPFSO) enacted in 1995 allows an employer to offset his SP/LSP payment against the accrued benefits from his MPF contributions. For employees subject to "offsetting", on average about 94% of their employers' accrued benefits were withdrawn. About 67% of the affected employees had employers' accrued benefits completely withdrawn

- In many "offsetting" cases, the accrued benefits from employers' MPF contributions are not enough to settle the SP/LSP in full, and the shortfall has to be met by employers out-of-pocket. According to 2014 and 2015 information from MPF Authority, accrued benefits from employers' contributions on average can "offset" 83% of the total SP/LSP payable, with the remaining 17% paid out-of-pocket

ENHANCING THE MPF SYSTEM – ABOLISHING THE "OFFSETTING" ARRANGEMENT PROGRESSIVELY (CONT'D)

- Guiding principles for abolishing "offsetting"
  - the abolition of "offsetting" should have no retrospective effect
  - to balance between employers' affordability and employees' benefits
  - Government should have a visible role to play in terms of financial commitment but any payments from the public purse should be finite in quantum and duration
  - employees currently not covered by MPFSO or other statutory retirement schemes and hence not affected by the abolition of the "offsetting" arrangement would continue to have their SP/LSP entitlements dealt with and calculated in accordance with the existing provisions of the law
  - any unintended policy consequences in terms of creating moral hazards, souring labour relations, massive lay-offs, etc. should be minimised

Enhancing the MPF System – abolishing the "offsetting" arrangement progressively (Cont'd)

- Three key elements of the proposal of abolishing "offsetting" progressively-
  - First, from a prospective date (the 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 SP/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 × 2/3 (i.e. 66.7%) × years of service

ENHANCING THE MPF SYSTEM – ABOLISHING THE "OFFSETTING" ARRANGEMENT PROGRESSIVELY (CONT'D)

- Three key elements of the proposal of abolishing "offsetting" progressively (Cont'd) –
  - Second, 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 × 1/2 (i.e. 50%) × years of service
    (i.e. a dismissed employee with two years of service can receive compensation equivalent to one month's wage)

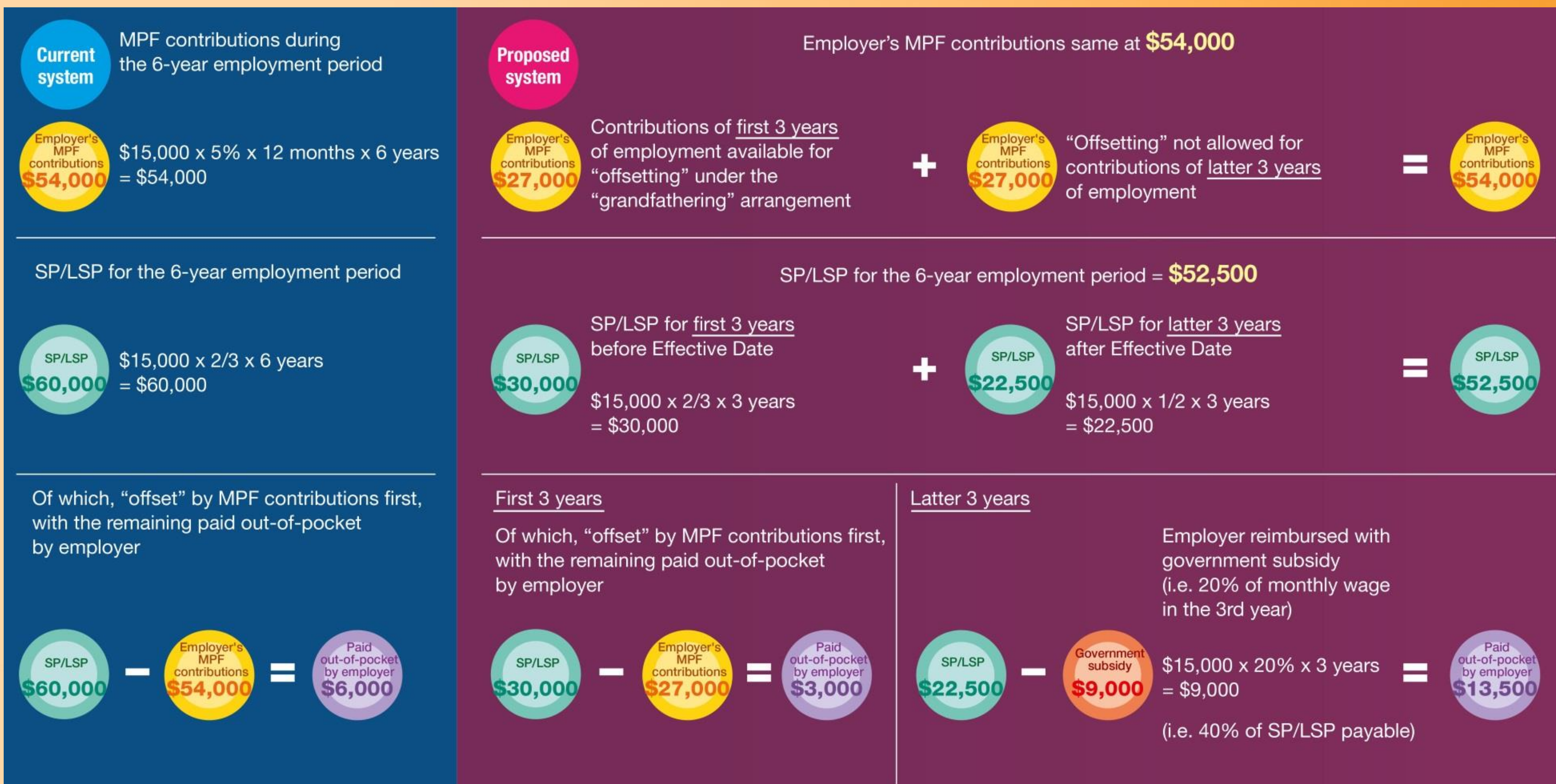
ENHANCING THE MPF SYSTEM – ABOLISHING THE "OFFSETTING" ARRANGEMENT PROGRESSIVELY (CONT'D)

- Three key elements of the proposal of abolishing "offsetting" progressively (Cont'd) –
  - Third, to assist employers, in particular small and medium-sized enterprises, the Government will provide subsidies for employers on a reimbursement basis in the ten years from the Effective Date in order to share part of the SP/LSP expenditure in the absence of the "offsetting" arrangement, 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%

WHAT THE CURRENT AND NEW SYSTEMS MEAN FOR EMPLOYERS AND EMPLOYEES?

- 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 contribution –



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What the current and new systems mean for employers and employees? (Cont'd)

ENHANCING THE MPF SYSTEM – ABOLISHING THE "OFFSETTING" ARRANGEMENT PROGRESSIVELY (CONT'D)

- The "grandfathering" arrangement and government subsidy will mitigate the impact on enterprises. Additional financial burden on affected enterprises will be notably smaller in the first few years –

Year after the Effective Date	Estimated overall additional expenditure on employers	Estimated additional expenditure as percentage of total wage bill
1	$111 - $147 million	0.01-0.02%
5	$1.4 - $1.9 billion	0.2%
11	$4.0 - $4.9 billion	0.5-0.6%

- Enterprises would adopt different coping strategies, having taken into account their specific circumstances. With "grandfathering" arrangement and government subsidy, the additional cost should be largely manageable for most sectors

GOVERNMENT'S VISION FOR MPF

- Implement the Default Investment Strategy (DIS) in April this year to address concerns on "high fees" and "difficulty in making choices"

- Task the MPF Authority to discuss further with industry practitioners the development of a centralised electronic portal, eMPF, to standardise, streamline and automate the MPF scheme administration so as to further reduce the cost and pave the way for "full portability". The Government will render full support to these efforts

- Implement "full portability" in the long term to attain the ultimate aim of "one member, one account", such that each employee can centralise his MPF accrued benefits in one MPF account to effectively manage his retirement savings

SUPPORTING ELDERLY PERSONS IN INVESTMENT MANAGEMENT

- The Government will study the feasibility of a public annuity scheme and explore whether we can have life annuity plans run by the public sector, so as to help elderly persons annuitise lump-sum assets into a steady stream of monthly income to reduce uncertainty
- Will consider issuing larger volumes of Silver Bond, which is popular amongst elderly persons, and setting the term longer. We will also encourage the financial sector to develop more retirement-related investment products

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	-

* **For the coming ten years, additional average recurrent government expenditure is estimated to be over $9 billion per year, together with a one-off expenditure of $6 billion.**

NEXT STEP

- Subject to LegCo's funding approval, the Government will put in place the enhancements to the OALA and healthcare services as soon as possible
- In next three months, we will engage the business and labour sectors, MPF trustees and relevant advisory boards in thorough discussions on the proposal of abolishing "offsetting" and will revert to the Executive Council for decision on the finalised proposal before end June this year
- Commence the study on the feasibility of a public annuity scheme

End