BPF Position on Income Protection for Retirement
Dr David Y K Wong
Chairman, BPF

General positions
We believe that retirement protection issues encompass much more than just financial protection.

The basic pillar of mandatory retirement income protection for Hong Kong should continue to be the MPF, although it should be enhanced to become a more significant and more cost effective provident fund with employees rather than employers at its heart and with an income option.

The principal supporting pillar should be a Government safety net based on a reformed CSSA for the elderly who have been unable to make adequate provision for their retirement income. It should be assessed separately for different retirement age brackets and remain means tested.

A coordinated system of support for elderly Long Term Care should be developed as a third key retirement protection pillar. There should be a root and branch review of lifestyle support, not limited to the poor, with particular focus on health and long term care, on care and support in the community, and on elderly friendly living conditions. A fundamental change in emphasis from prolongation of life to quality and dignity of life in old age should drive this review and should have priority in government resource planning for retirement protection.

The principles that lead us to the above recommendation are:-

- Primary responsibility to save for retirement rests with the individual/family
- Government support should be a safety net, not a substitute for individual responsibility
- A mandatory retirement defined contribution savings plan for those who can afford it is a necessary counter to any safety net
- The rich can look after themselves
- Basic income protection should be the prime objective. All the standards and guidelines of such bodies as OECD, World Bank, ILO recommend a multi-pillar approach on this basis, although these organisations’ recommendations tend to assume that the economy in question has a high tax-base to support the higher, redistributive pillars
- The ideal to aim for is that retirees should have enough income/resource to meet basic

  Day to day living
  Housing
  Healthcare (including the long term care)

- A universal pay-as-you-go or even partly-funded pension is not a viable and sustainable option, given our aging demographics and low, narrow and volatile tax base. It is unaffordable and involves distributing government revenue to those that do not need it.
- Solutions to Housing and Healthcare for the aged must be addressed in parallel with, not separately from the level of retirement income protection.
MPF reforms
The major shortcomings of the existing MPF are:
- The fees are too high.
- The contributions rates are too low.
- Lowly paid workers only get their employer contributions and do not contribute themselves.
- Severance benefits/Long Service Payments are offset against employers’ MPF contributions.
- The MPF benefits are paid as a lump sum at age 65 or when an employee satisfies other criteria.

We recognise that there must be reforms to enhance MPF and improve its public acceptability. These include introducing a central administrative platform, reducing administration costs, full portability, drawdown of accrued benefit for limited approved purposes and greater investment freedom as well as finding a solution to the issue of Severance benefits/Long Service Payments, which are a hangover from pre-MPF days and are now an impediment to reform.

Expressing the final benefit as an income will highlight the inadequacy of the current contribution levels, and will provide a clear choice as to the degree our community is prepared to commit to prefund retirement protection. There should be consideration to following the Australian example, phasing in any increase in contribution levels over a number of years.

In addition, the normal age of retirement should be increased to 65 now and further increased in future years. MPF benefits should only be available at age 65 except under special circumstances. Only a part of the MPF pot should be available in cash at age 65 or when an employee satisfies other criteria. The balance should be annuitised as a monthly income to ensure that the retiree has enough income to be financially independent and not reliant on government support.

Meanwhile, the safety net will continue to provide protection to those with low incomes who will not have accumulated sufficient assets in or outside the MPF upon retirement.

The safety net (Reformed CSSA)
For a safety net (currently the CSSA) to become the main supporting pillar for retirement income protection for the less well off, we recommend that the following improvements be made:
- Rebranding CSSA into retirement income benefits which will be means tested.
- Removing the requirement that children certify their non-support of the applicant so as to remove the stigma currently exist.
- Defining different benefit levels in accordance with the applicant's housing status, marital status and medical costs (the medical costs will likely increase in older age). The benefit levels should be able to provide a reasonable basic income to those qualified.
- Replacing Old Age Living Allowance and Old Age Allowance (“Fruit Money”) with this retirement income benefit and it will be means tested. However, for political reasons, existing recipients who are entitled to non means tested Old Age Allowance may be “grandfathered”
Also, if $3000 per month is the base number, it should be increased in the future to take account of increases in cost of living in general and the cost of housing in particular.

**Elderly care and support**

We recommend a comprehensive review of current care services in both the public and private sectors and of projected requirements and of the appropriate policies to meet future needs both for institutional care and preferably home based care of a rapidly aging society. Training, qualification and recruitment of carers, both voluntary and professional are a major challenge which is not being adequately addressed. Care and support for those with dementia are another.

We strongly recommend the setting up of a Long Term Care Commission to drive enhancement of elderly care and coordinate services currently handled across several government departments.

**Ideal pension policy**

An ideal pension policy should:

1. Allow citizens to build up enough assets while working to enable them to enjoy a comfortable and long retirement.

2. Enable as many citizens as possible to enjoy a comfortable retirement without requiring Government assistance.

**Views on the proposed universal pension scheme**

1. Saving (generally agreed at some 20% of income) should be at the heart of all retirement pension schemes. The proposed universal pension scheme, like all pay as you go schemes, is inherently financially unstable and is a deterrent rather than incentive to save.

2. Its sustainability is based on the assumption that a demo grant set at HK$3000 will remain at that level indefinitely which is unrealistic! Even at that minimum level their own projections show the scheme running at a growing annual deficit, exceeding 15% in the later years, every year for the period 2026 to 2041.

3. It is a one size fits all proposal which takes no account of the reality that retirement now represents about 30% of total life span and that retirement protection needs are vastly different for the age groups 65/75, 75/85 and those in extreme old age as well as for different economic groups in each of these age ranges.

4. Most importantly, although purporting to report on the future development of Retirement Protection in Hong Kong, it deals with only one aspect of retirement protection and for many if not most retirees not the most essential. Other than a one line passing reference on page 3 of the Executive Summary, no mention is made of lifestyle issues such as shelter, care, and health which from a Government resource allocation perspective have equal if not greater priority. To enter into a highly questionable long term commitment to introduce a pay as you go universal pension without first assessing the full range of Retirement Protection funding needs and how they should be addressed would be irresponsible and preempt solutions to the broader needs.