An age-old issue

The View

Richard Wong

Universal handouts are a costly approach to helping elderly poor but city should consider expanding health services and privatizing public housing.

Public discussions of old age retirement support have always been confusing because they involve two concerns: alleviating poverty and getting votes (or building political support).

In Hong Kong, there are several social transfer schemes to support the elderly poor without means. While one could query their effectiveness and how they could be enhanced, politicians and social advocates have instead demanded a scheme that provides benefits to all, regardless of whether they are poor.

Consider a recent suggestion by Professor Nelson Chow in his study "Future development of retirement protection." This involves the actuarial evaluation of five proposals put forward by politicians and social advocates, plus a sixth proposed by Chow.

Chow's proposal has three objectives. First, to consolidate existing old age support schemes into a single simplified scheme and pay every elderly person a monthly sum of HK$3,000.

Second, to enhance the level of support for the elderly poor — a long-time concern of the good professor for which he is greatly respected by the public.

Third, to provide the same level of support to the middle class and the rich, a much larger group of elderly households.

Because only half of the city's working population pays payroll taxes, that would mean about half of the middle class would contribute all or a minimal amount in order to receive HK$3,000 a month in old age.

Those who are retired would see the benefit of such a scheme. So would those close to retirement.

Future planning

<table>
<thead>
<tr>
<th>Country</th>
<th>Total labour force participation rate (%)</th>
<th>Total population over 65%</th>
<th>Life expectancy 2050</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>50</td>
<td>25</td>
<td>84</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>60</td>
<td>20</td>
<td>82</td>
</tr>
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<td>15</td>
<td>80</td>
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<tr>
<td>China</td>
<td>75</td>
<td>10</td>
<td>75</td>
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</tbody>
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If individuals considered only their own interest and ignored that of their children who would be burdened by taxes, then the scheme would have a formidable political support base.

The unspoken objective of using a universal old age social transfer scheme to provide retirement protection is, therefore, ultimately political.

But there are dangers in this approach. Chow's calculations reveal that four proposed schemes (including his) will be in deficit by 2028, and the other two, which would be financed by recent government expenditures, would cost 2 to 2.38 per cent of projected gross domestic product in 2041 (when Census and Statistics Department projections end — more than double what the government currently spends on old age support (about 1 per cent).

Even these estimates are on the low side for three reasons. First, the ratio of elderly working population is expected to continue to women until 2031, then flatten, according to United Nations projections.

Second, the monthly sum paid out is adjusted only for cost of living. It is unavoidable these would not be further adjustment upwards as the economy grows.

Third, it is doubtful the population figures take full consideration of the upward trend of future life expectancy. Current projections are likely to be underestimated at least 10 years for those born in the 21st century.

What then should we do about retirement protection? For rich countries straddled with insolvent schemes, the only solution is to delay the start of payouts by a few years to restore solvency.

For Hong Kong, a much better solution is to address the most expensive and important items of expenditure that the elderly are most concerned about.

Hong Kong should expand medical and health care services, radically reform the mandatory provident fund so that savers will get their money's worth, and privatise public rental housing and lower land premiums on all subsidised housing.

Housing policy reforms alone would directly benefit about half the population. They would also provide a valuable asset to help those without means to finance their spending.

This belity of policies could do miracles to address our old age retirement protection challenges, especially for those with out means.

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