Providing retirement protection in Hong Kong
A balancing act

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Outline

• Multi-pillar system in Hong Kong
• Population challenge
• Fiscal challenge
• Civil society debate
• Government’s position
• Strategies for a holistic and pragmatic solution
Hong Kong’s multi-pillar system

<table>
<thead>
<tr>
<th>Five pillars of the World Bank</th>
<th>Zero pillar</th>
<th>First pillar</th>
<th>Second pillar</th>
<th>Third pillar</th>
<th>Fourth pillar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement protection system in Hong Kong</td>
<td>Publicly-funded pension or social security schemes (non-means-tested or means-tested)</td>
<td>Publicly-managed mandatory contributory plans (largely financed on a pay-as-you-go (PAYG) basis)</td>
<td>Privately-managed mandatory occupational or private contributory pension plans</td>
<td>Voluntary contributions or savings to occupational or private pension plans</td>
<td>Public services, family support and personal assets</td>
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<tr>
<td>CSSA*; OALA; OAA; Guangdong Scheme; DA</td>
<td>Nil</td>
<td>Mandatory contributions to MPF schemes; occupational retirement schemes; civil service pensions; Grant/Subsidised Schools Provident Funds</td>
<td>Voluntary contributions to MPF schemes; retirement savings-related insurance</td>
<td>Public housing; public healthcare; residential and community care services; elderly health care vouchers; public transport fare concessions; family support; self-owned properties</td>
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Note: (*) Including the Portable CSSA Scheme.
Source: World Bank and relevant policy bureaus
Population challenge

- Total fertility rate averages just above 1.
- 1 in 3 will be elderly after 2041
- Elderly aged 75 and over will increase from 550K to 1.51 million
- Labor force will peak in 2018 and decline steadily thereafter
- Worsening dependency ratio from 2.1 (2014) to 6.6 in 50 years
Fiscal challenge

• Economic growth will be dragged down by insufficient labor supply
• Public expenditure for the elderly will be two to four times the current expenditure in 50 years
• Despite the current healthy budget surplus and fiscal reserve, government expects to face structural deficits by 2029 under status quo projections
Civil society debate (1)

Option 1: “Regardless of rich or poor”

- Retirement protection is a basic right (not a welfare benefit)
- No means-testing allows the elderly to live with more dignity
- Fiscal reserve will (somehow) not be depleted
- The privately managed MPF system cannot be trusted to deliver
- Those who have “contributed to society” deserve a stronger sense of income security in old age
Civil society debate (2)

Option 2: Only elderly “with financial needs”

• Objection to offering uniform assistance to all older persons whether they needed it or not
• Preference for a policy that better reflects HK’s core values, i.e. hard work and self-reliance
• Consistent with mandate to target government resources towards those who cannot provide for themselves
• Fiscally more responsible in terms of inter-generational transfer
• Less likely to have an adverse impact on future economic development
Government’s position

• Expressed reservations about the feasibility of the “regardless of rich or poor” option

• Worried about the long-term sustainability of public finances

• Very aware that Hong Kong is coming up against a demographic cliff as it enters an era of rapid population ageing

• Faces a real threat of being forced to raise taxes substantially and/or introduce new taxes (which will affect Hong Kong’s competitiveness)

• Concerns over taking away resources for other competing priorities

• Need to maintain fiscal balance as required by the Basic Law
Strategies for a holistic and pragmatic solution

• Ensure elderly can live with adequate financial means, with access to affordable housing as well as quality health and care services
• Continue to encourage filial piety and family support wherever possible
• Tackle demographic and fiscal challenges while maintaining Hong Kong's overall economic competitiveness
• Demonstrate government commitment by setting aside HK$50 billion for improving the retirement protection system
• Promote rational, informed and evidence-based discussions among stakeholders
• Engage in an ongoing collaborative dialogue aimed at developing feasible policy options
Thank you