Press release

LCQ3: Retirement protection

Wednesday, March 10, 2010

Following is a question by the Hon Ronny Tong Ka-wah and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (March 10):

Question:

The findings of a telephone survey on the Mandatory Provident Fund (MPF) Scheme indicate that 70% of the surveyed employees who are 18 years old or above consider that relying solely on MPF is insufficient to maintain basic living after retirement, especially when the investment return on MPF for most employees has shrunk significantly after the financial tsunami, but the Government still stresses that the three pillars of retirement protection, namely the Comprehensive Social Security Assistance (CSSA) Scheme and Social Security Allowance Scheme, the MPF Scheme as well as voluntary private savings, may sustain and safeguard the retirement life of Hong Kong people. In this connection, will the Government inform this Council whether:

(a) it has, based on the investment returns of the MPF schemes in the past 10 years, projected the respective amounts of MPF accrued benefits that can be withdrawn in a lump-sum by employees currently aged 45 and 50 with a monthly income of $10,000 when they reach the age of 65;

(b) it has, based on the rates of adjustment in and related benchmarks of various categories of CSSA payments in the past three years, projected the respective amounts of monthly CSSA payments for various categories of CSSA recipients (including elderly people aged 65 or above, people with disabilities and low-income earners) in 2033; and

(c) it knows the number of employees who have participated in the MPF Scheme to date, and the respective breakdowns by age group (from 18 to 39 years old and from 40 to 60 years old) of the numbers of employees whose MPF accounts only carry the employer's contributions and those whose accounts carry both the employer's and employee's contributions, the respective percentages of such numbers in the total population of Hong Kong, the average amount of monthly contributions being injected into the aforesaid two types of accounts, and whether it has projected the amount of MPF accrued benefits that such employees can withdraw in a lump-sum by the time when they reach the age of 65 (calculated on the respective basis that they are currently aged 39 and 60)?

Reply:

President,

Hong Kong adopts the three-pillar approach for retirement protection, viz. the social security system, the MPF System launched in December 2000, and voluntary private savings. As one of the pillars, the MPF System aims to accumulate retirement savings for employees through contributions by both employers and employees. At present, around 2 209 000 (Note 1) employees have enrolled in MPF schemes. The amount of accrued benefits that an employee may withdraw upon retirement at the age of 65 will depend on the duration and amount of contributions as well as investment returns.

According to the estimation made by the Mandatory Provident Fund Schemes Authority (MPFA), for two employees now aged 45 and 50 with a monthly income of $10,000, assuming that they have begun to make contributions since the inception of the MPF System in December 2000 and the annual rate of investment return is 5% (Note 2), the amount of their accrued benefits when they reach retirement age of 65 would be $783,000 and $557,000 respectively (Note 3).

The question also asked for the numbers of employees who are aged between 18 and 39, and between 40 and 60, with monthly income below $5,000 (i.e. which requires contribution by employers only) and $5,000 or above (i.e. which requires contribution by both employers and employees), the proportion of these groups of employers in percentage terms in the total population of Hong Kong, the average amount of their monthly contributions and the estimated amount of their MPF accrued benefits upon reaching retirement age of 65. As MPF schemes are operated by approved trustees, the MPFA does not have information on the age and income of scheme members and can only provide the requested estimates based on the information available from the General Household Survey for the third quarter of 2009 conducted by the Census and Statistics Department.

According to MPFA's estimation, for two employees who are now aged 39 and 60, assuming they have been making contributions since the inception of the MPF System in December 2000 and the annual rate of investment return is 5% (Note 2), the amount of their accrued benefits when they reach retirement age of 65 would be $169,000 and $36,000 respectively if the monthly income of the relevant employee is below $5,000 with a monthly contribution of $148, or $1,865,000 and $398,000 respectively if the monthly income of the relevant employee is $5,000 or above with a monthly contribution of $1,635. The relevant estimation (Note 3) is set out at Appendix for reference.

The CSSA Scheme, being another pillar under the social security system, aims at providing financial assistance to families in need to meet their basic needs. CSSA standard payment rates are adjusted annually according to the movement of the Social Security Assistance Index of Prices (SSAIP), which is compiled by the Census and Statistics Department and reflects the impact of price changes on CSSA recipients. Besides, the Social Welfare Department updates every five years the weighting system of the SSAIP (i.e. the relative expenditure shares of individual items of goods and services covered by the index) on the basis of the Household Expenditure Survey on CSSA Households, so that the index can more accurately reflect the latest expenditure pattern of CSSA households. The above mechanism seeks to ensure that the purchasing power of CSSA payment rates is maintained.

The existing mechanism adjusts CSSA payment rates with reference to inflation/deflation during the 12 months before the annual adjustment cycle (i.e. November of each year to October of the following year). It does not have any direct relationship with adjustments to CSSA payment rates and relevant reference indices in the past. In addition, the actual amount of assistance payable to CSSA recipients will differ for various reasons (including the income of their family members and their special needs). The amount of monthly CSSA payment to be received by different categories of CSSA recipients in future therefore cannot be projected on the basis of adjustments to CSSA payment rates and reference indices in the past.

Furthermore, local price changes in the long term involve a considerable number of uncertainties (such as global and local economic situations, international prices of commodities and exchange rate movements, etc.). The Government is unable to forecast such changes and the SSAIP, and as a consequence, is also unable to accurately project adjustments to CSSA payment rates resulting from the price changes in the coming 23 years.

Note 1: Position as at end December 2009.

Note 2: This is the annualised return rate from the launch of the MPF System in December 2000 up to end December 2009.

Note 3: The projection is made on the assumptions that there would be no change to the existing contribution requirements throughout the relevant employment period, and the scheme member concerned only makes mandatory contribution and does not make any voluntary contribution. All figures are calculated on the basis of current monetary value with the salary adjustment rate and the inflation rate assumed to be identical.

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