

**Commission on Strategic Development
Committee on Social Development and Quality of Life**

**An Overview of Key Population Policy Issues (Part II):
Major Issues on Ageing and
Eligibility and Portability of Public Benefits**

Purpose

The paper outlines the major population issues of ageing and eligibility and portability of public benefits of Hong Kong; and invites Members to discuss the strategic direction and strategies on these issues.

Background

2. At its meeting on 24 April 2006, the Committee discussed two major population issues on promoting parenthood and quality of population, and noted that the Council for Sustainable Development would shortly commence a public engagement process on population policy. Views from members of the Committee have already been passed onto the Council for consideration. This paper continues the discussion on two other population-related issues i.e. ageing, and eligibility and portability of public benefits of Hong Kong.

A. Ageing Population

Overall Demographic Trend

3. Hong Kong's population is ageing. At present, our age profile is at a transitory stage moving towards an ageing population. In 2005, about 12% of the population were aged 65 and above and the median age was 39.

However, the ageing process will expand rapidly from 2011 onward (on average by 60,000 annually) so that 1/4 of our population will be aged 65 and above in 2033, i.e. about 2,243,000 (26.8% of the population). This is primarily a result of a combination of factors, including the dramatic increase in life expectancy, extremely low fertility rate, and the post-war baby boomers are getting old¹. The latest projection also indicates that the labour force will taper off in growth around 2013 -2015 and then decline gradually afterwards, whereas the overall dependency ratio will start to rise from 2012 onward.

4. It is worth noting that apart from local births, the major source of our population growth is the One-way Permit Scheme (OWP Scheme). A total of about 245 600 new arrivals were admitted to Hong Kong between 2001 and 2005. The overwhelming majority (e.g. 86% in 2005) of the new Mainland arrivals were below 40 years old. They help slow down our population ageing process and provide a new source of labour supply, though the education and skills of the new arrivals are generally at a lower level². On the other hand, various types of admission schemes for skilled workers and investors have only a marginal effect in mitigating our ageing process.

5. The future older age (65-84) population in 2023 would largely comprise of persons at their middle ages in 2001. The broad socio-economic characteristics of this cohort of persons in 2023 are projected likely to be³:

¹ For a detailed breakdown of the relevant demographic statistics and projections – refer to the “Information Note on the Demographic Characteristics and Trends of Hong Kong”, CSD Secretariat March 2006 (Ref: CSD/SC/W/1/2006).

² According to 2001 Census, among new arrivals from the Mainland aged 15 and above, about 30% had attained upper secondary education or higher. The corresponding figure for the total population in Hong Kong aged 15 and over was 52%.

³ Census & Statistics Department, Analysis of selected population cohorts in 2001 Census in relation to the study of ageing population, June 2006

- 46% males and 54% females⁴
- 64% with lower secondary education or below (including no schooling) and 11% with tertiary education⁵
- 47% were previously engaged in lower-skill work⁶
- Labour force participation rate of 7.8%⁷
- 11.4% living alone⁷

Major Challenges

6. The rapidly growing number of older people will inevitably induce major socio-economic changes to our society and impact on the distribution of public resources. It is a challenge for the community as a whole, including the government, business, non-government organizations, and individuals to manage the natural consequence of ageing and to perceive ageing positively. Indeed, ageing is a problem only if people are unhealthy and unable to be self-reliant resulting in dependence on public resources support⁸.

7. On the social aspect, the following major challenges of ageing have been raised :

- (a) Despite that Hong Kong does not have a mandatory retirement age, the existing societal and employment structures appear to give rise to a rather inflexible working and retirement age arrangement. Indeed the concept of flexibility and freedom for individuals to make their lifestyle choices have not been widely accepted or adopted.

⁴ Compiled from the set of population projections released by the Census and Statistics Department in 2004.

⁵ Compiled from characteristics of persons in the middle ages from the 2001 Population Census

⁶ Lower skill workers are defined to be working in the following occupations: Clerks, Service Workers & Shop Sales Workers, Craft & Related Workers, Plant & Machine Operators & Assemblers, Elementary Occupation, Skilled agricultural and fishery workers, and occupations not classifiable

⁷ Compiled from characteristics of persons in the older ages (65-84) from the 2001 Population Census – assumed the current pattern of the workers and persons, as appropriate, of the age from 65-84 will prevail in 2023

⁸ Christine Loh, “Hong Kong’s Demographic Challenge : what is the “problem” of an ageing population”, Civic Exchange, 2005

Given the “conventional” retirement age of 60, or even earlier, and an average life expectancy of 79 for males and 84 for females, it is a completely new experience for our older population who will have to live a long retirement life of 20 or more years. It will be a major issue if they do not have adequate financial means to meet the basic requirements of their long retirement life. Issues related to retirement pension scheme, equal opportunity in employment, life-long education and flexible work arrangement will need to be addressed if we want to provide real options for older workers to choose between work or retirement⁹. A recent international survey on retirement has also found that Hong Kong people generally prefer to work longer and to save more in order to finance their own old-age expenses instead of resorting to public social security assistance¹⁰.

- (b) A more conducive social and living environment should be provided to facilitate the older persons to remain productive, independent and involved in the community.
- (c) It has been predicted that the future older population would find it more difficult to seek financial and other support from their adult children and family when compared with the current situation¹¹. This is mainly a result of the increasing “single-elderly person” households and the weakening of the traditional extended-family social support. Such phenomenon is mainly due to proliferation of nuclear families and families without child, etc.

⁹ Chou Kee-lee and Nelson W S Chow , “To retire or not to retire : is there an option for older workers in Hong Kong?”, Social Policy and Administration, Vol. 39, No. 3, June 2005. pp.233-246

¹⁰ HSBC, The future of retirement in a world of rising life expectancies – attitudes towards ageing and retirement: a study across 10 countries and territories, 2006

¹¹ Chou Kee-lee, Nelson W S Chow and Iris Chi, “Preventing economic hardship among Chinese elderly in Hong Kong”, Journal of Aging & Social Policy, Vol. 16, No. 4, 2004, pp.79 -97

8. The macro-economic opportunities and challenges of ageing to Hong Kong were discussed in the Part I of this series of paper (Ref: CSD/SC/3/2006 refers). To summarise, whilst ageing could bring about the opportunity of a “silver hair market”, it would also lead to a reduction in labour force and would have a negative effect on economic growth unless it is offset by a large and sustained labour productivity gain. The negative long term effect on the public finances is also a major concern. It might aggravate our already narrow tax base problem and would thereby add more burdens on the future working-age population. Furthermore, the ageing population would add to the pressure on social welfare and health and other age-related public expenditures and compete with other spending items such as education and retraining¹².

Response to Ageing Population Challenges : Hong Kong and Overseas Experiences

9. The challenges outlined above are typical to the ageing societies. Different economies have adopted different combinations of policies and measures to tackle the challenges. Yet a common theme shared by Hong Kong and other economies is the adoption of the concept of “active and healthy ageing” as advocated by the World Health Organisation¹³ in developing their ageing and related policies. The concept basically calls for the community to support and enhance the capacities of the older persons so that they can remain productive members of the society and the economy. The following paragraphs highlight the efforts of Hong Kong and other developed economies on this subject.

¹² International Monetary Fund, People’s Republic of China – Hong Kong Special Administrative Region, Selected Issues, p.16, January 2006

¹³ World Health Organisation (WHO) developed a Policy Framework on Active Ageing for the Second World Assembly on Ageing in 2002 to help countries meet the challenges of population ageing. Active ageing is defined as the process of optimising opportunities for health, participation and security in order to enhance the quality of life as people age.

(i) *Hong Kong*

10. On encouraging active and healthy ageing, the Government is working closely with the Elderly Commission. Taking into account the existing policies and measures for the elderly, the key issues in elderly care and the challenges ahead, the Elderly Commission has set up two Working Groups, namely the Working Group on Active Ageing and the Working Group on Long-term care (LTC) Model to deliberate on ways to meet the challenges. The Working Group on LTC Model would also examine the interface between medical/healthcare and social welfare in elderly services. On a separate front, the Hong Kong Jockey Club has recently launched a major programme “CADENZA: Initiatives for Seniors” to change the attitude and mindset of the community on positive and active ageing. This is a five-year project with a funding of up to HK\$380 million. Through the programme, the Jockey Club hopes to instill a new culture and pioneer a sustained service delivery model to support the elderly.

11. The Government is providing non-contributory financial assistance through the social security system¹⁴ and a range of highly subsidized services for older persons. 91% of the elders aged 70 or above are now receiving CSSA (129 700 persons); OAA (43 950 persons) or DA (378 410 persons). **Annex 1** summarises the annual expenditure on social security and medical services for elderly persons from 2000-01 to 2006-07. In 2005-06, over \$12 billion was spent on CSSA, OAA and DA items. Another \$3 billion has also been spent on providing elders with various types of home-based and centre-based community care and support services, and subsidized care services. On public healthcare, about \$13 billion was spent on healthcare to elders, which accounted for 45.8% of the cost of services of the Hospital Authority¹⁵.

¹⁴ The social security system includes the Comprehensive Social Security Assistance (CSSA), Old Age Allowance (OAA), and Disability Allowance (DA) under the Social Security Allowance Scheme.

¹⁵ HWFB, HKSAR Government, Assistance to elderly not receiving CSSA, LC Paper No. CB(2)2248/05-06(01), June 2006.

12. On provision of housing, at present about 60% of the elders are living in Government subsidized housing, including public rental housing and purchased flats under the Home Ownership Scheme. In recent years, the number of elderly households on the waiting list for public rental housing has decreased from about 16 000 in 1997 to around 6 800. The average waiting time for the single elders applying for public housing has decreased from about 4.5 years in 1997 to 1.2 years.

13. To enhance the mobility of the older population, public transport operators, including franchised bus companies, railway companies, tramways, individual green minibus and ferry operators have been offering half-fare concessions or discounts to the elders.

(ii) Overseas

14. According to the United Nations, the proportion of the world population aged over 60 will increase to one in five by 2050. The speed and scale of global ageing has become a major public policy issue at the international level. In response, the 2nd World Assembly on Ageing 2002 advocated three main priority directions¹⁶ to meet the challenges of population ageing, i.e. :

- (a) Mainstreaming ageing into development policy and promoting full integration and participation of older persons, which include promoting positive attitudes towards ageing; and achieving productive ageing through continued employment and lifelong education / retraining, etc.;

¹⁶ United Nations, Second World Assembly on Ageing, Madrid, Spain – Madrid International Plan of Action and Political Declaration, April 2002; and the Shanghai Implementation Strategy – Regional Implementation Strategy for the Madrid International Plan of Action on Ageing 2002, Shanghai, China, September 2002

- (b) Advancing health and well being into old age by ensuring the quality of life of older persons, including independent living, health, and well being; and providing quality health and long-term care; and
- (c) Ensuring supportive environments by undertaking measures to strengthen family cohesiveness and multi-generational solidarity; developing community-based services; promoting barrier-free and age-integrated living environment, etc.

15. The European Union (EU) is also very concerned about ageing as the Union as a whole will soon face a shrinking population. Of the 5 largest member states, only the populations of Britain and France will grow modestly between 2005 and 2050, by about 8% and 9.6%, respectively. Recently, immigration from outside the EU has somewhat mitigated the impact of shrinking population within some of the member states, but it is not enough on its own to solve all the problems associated with ageing.

16. Against this background, EU issued a consultation document¹⁷ in 2005 which proposed three major priorities to tackle the demographic challenges. They are :-

- (a) Return to demographic growth – highlighting the need for innovative measures to support the birth rate, and judicious use of immigration as a mitigation measure;
- (b) To ensure a balance between generations in the distribution of funding needs stemming from pensions and health-related expenditure, etc.; and

¹⁷ Commission of the European Communities, Green Paper “Confronting demographic change : a new solidarity between the generations”, Brussels, p.10, 16 March 2005

- (c) To find new bridges between stages of life such as the increasing number of “young retirees” who want to have flexibility to participate in social and economic activities during different stages of their retirement life.

The document also called for getting people into jobs and increasing their productivity, in particular to increase the young, female and older workers to employment; and to continue modernising the social protection systems, especially pensions, to ensure their social and economic sustainability, etc.

17. Many of the developed economies are concerned about the projected significant increases in age-related spending. They have been finding ways to pay for the escalating public pension, healthcare entitlement, etc. Major measures include removal of incentives to early retirement; improvement of employment prospects of older workers; pension reform such as increasing pension age to 65 or even higher at 67 (**Annex 2**); encouraging work after pension age; development of the World Bank’s multi-pillar framework – a publicly managed tax-funded pension system, a privately managed funded scheme, and voluntary retirement saving; improving the cost-effectiveness in health and long-term care, etc¹⁸.

(iii) Strategic Issues for Consideration

18. The above discussion raises the following strategic issues for Members’ consideration :

- (a) What strategic direction should be adopted for Hong Kong in response to the coming of an ageing population?
 - (i) to reverse the ageing trend by introducing more proactive measures such as immigration and admission of workers, promoting parenthood policies and measures, etc.;

¹⁸ World Bank, Pension Reform and the Development of Pension System, 2006, and OECD, Policies for an ageing society : recent measures and areas for further reform, Economic Department Working Papers No. 369, November 2003

- (ii) to adapt to the ageing trend by enhancing the productivity and capability of the local population, including the older persons, and to promote life-long education / retraining, active and healthy ageing, etc.; or
 - (iii) to slow down the ageing trend as a matter of priority so as to allow time for the community to prepare for the coming of an ageing society by introducing a combination of measures related to (i) and (ii) above.
- (b) What priority actions should be taken in the coming 7-9 years before the rise in dependency ratio and rapid ageing process begin?
- (c) International and Hong Kong experiences indicate that along with an ageing society, a much higher demand for public resources on age-related health and welfare spending will be required. In this light, what kind of strategic initiatives should be considered by the Government?
- (d) What further initiatives should be undertaken in the community (the Government, business, non-government organizations, and individuals) to promote active and healthy ageing in Hong Kong?
- (e) Should more flexibility and freedom for older population to make their lifestyle choices be promoted in view of increased life expectancy and people's desire to have a longer productive lifespan? If so, what actions should be taken?

- (f) Which are the areas that the Government should look into further to provide a more supportive social and living environment for the older population to live and work independently and harmoniously in the community?

B. Eligibility and Portability of Public Benefits

19. The concerns of eligibility and portability of public benefits are related to the growing trend of Hong Kong people living, working and retiring outside Hong Kong, particularly in the Mainland. It has been suggested that if Hong Kong's public benefits such as social security payments, education and medical services could be made portable¹⁹ to the Mainland, it will facilitate the current close economic and social interaction between Hong Kong and the Mainland. If the public benefits were portable, it would encourage our older population to retire in the Mainland at a much lower cost of living, our workers to work in the Pearl River Delta (PRD) area, and those already working in the PRD to bring their children to stay with them and be educated in the Mainland. However, there is a concern that the last one would aggravate the ageing trend in Hong Kong.

20. On the other hand, there is a "fairness" issue on the eligibility of public benefits. There is a sizeable number of Hong Kong people working or staying in the Mainland for a long period of time, or have migrated to other countries for years. Some considered it unfair to the local community to have to bear the cost for these groups of people to enjoy the public benefits such as education and medical services when they return to Hong Kong.

21. To provide some background for Members' discussion, the following outlines the current situation in Hong Kong and other countries regarding eligibility and portability of benefits.

¹⁹ Portability of benefits refers to the continuation of the provision of public benefits during a recipient's long-term absence from Hong Kong.

(i) *Hong Kong*

22. In general, Hong Kong permanent residents are eligible for all subsidised local public benefits provided that they have met the residency requirement (varying between different types of benefits) and with or without means-tests. The major exception is public education which is open to all as long as they have Hong Kong (both permanent and non-permanent) resident status. On the public healthcare services, all returnees who have been living outside Hong Kong for years but with Hong Kong permanent resident status are also eligible for the heavily subsidised services. Since April 2003, Two-way Permit holders and other visitors are charged at full cost for public healthcare services.

23. Hong Kong's public benefits are not portable except under the Portable CSSA Scheme. Public benefits recipients are required to reside in Hong Kong. Considerable flexibility has been included over years to allow the public benefits recipients to leave Hong Kong for a number of days within a year taking account of the close interaction between Hong Kong and the Mainland. For example, Old Age Allowance and Disability Allowance allow its recipients to be absent from Hong Kong for a total of 240 days in a year. The Government has implemented the Portable CSSA scheme to provide an option for the elderly CSSA recipients to retire in the Mainland. So far, there is not a huge demand for the Portable CSSA despite the fact that its coverage has recently been extended from Guangdong to Fujian. The number of recipients for the Portable CSSA Scheme stands at around 2500-3000 for years.

24. Two recent academic studies on cross-boundary retirement²⁰ have found that the availability of public benefits, including healthcare benefits, is not a key factor for older people to decide whether to retire in the Mainland. Moreover, those who have retired or are considering to retire in the Mainland are those relatively well educated and having a

²⁰ Chow WS, "A Study of Hong Kong residents' considerations in selecting between retirement in Hong Kong and across the boundary", 2003, and "A study on retired Hong Kong residents living in the Mainland", 2003

respectable average monthly income. The findings raise the issue of whether portable public benefits (including the medical benefits) are an effective means to encourage older people to retire in the Mainland.

(ii) Overseas

25. Similar to Hong Kong, the welfare benefits of many countries such as Singapore and Australia are tax-funded and means-tested with a residency requirement. On unemployment benefits, USA, Germany and the Mainland largely operate on employment-based contributory social insurance schemes. One has to earn his unemployment protection from his or her contributions. However, unemployed persons in Hong Kong are covered by the tax-funded safety net programme, the CSSA, which requires no mandatory contribution.

26. On public healthcare, Australia, similar to Hong Kong, covers all their residents and runs on a tax-funded system through a medical levy. Singapore and Germany also have their healthcare benefit systems cover all their residents, but based on an individual savings account and social insurance system, respectively. The USA and the Mainland healthcare benefits do not provide universal healthcare coverage to their residents.

27. On returned migrants, many countries impose restriction on their eligibility for public benefits through connection or contribution tests. For instance, Australia requires returnees to demonstrate their determination to reside in Australia permanently before eligible for social security benefits. In USA, a returnee has to demonstrate a number of years of gainful employment-tax contribution history before they are eligible to enroll in Medicare.

28. International and the European Union (EU) experiences indicate that portability of public benefits is an exception rather than the rule. Portable healthcare benefits are mainly applied to countries that operate on contributory social insurance systems and reciprocal agreements between countries of similar level of medical services. In some countries, they are

operated to cover emergency and necessary medical treatment for their nationals travelling in other countries. On other welfare benefits, it is rarely portable except on a time-limited and strict means-tested basis to facilitate people to look for work overseas such as the case in the EU. Other exceptions are the UK's non-contributory and portable "Over 80 Pension" and the Australia's "Age Pension"²¹.

(iii) Strategic Issues for Consideration

29. Compared to other countries, our eligibility criteria for public healthcare benefits are generous to returned Hong Kong residents who have been absent from Hong Kong for a long time. International experience also shows that portability is neither a common rule nor a social right for citizens. Even for the isolated portable schemes in other countries, they are subject to time-limits and strict means-test restrictions.

30. Against the above background, the following strategic issues are raised for Members' consideration :

- (a) Should the Government review the eligibility for subsidised public benefits of residents absent from Hong Kong for a long period of time?
- (b) Public benefits in Hong Kong are heavily subsidised by the Government instead of based on a contributory system in other economies. Should more public benefits be extended to make them portable given the possible induced demand? What are the strategic objectives of making public benefits portable?

²¹ The Over 80 Pension is a means-tested, tax-funded benefit that is intended for higher old-age UK citizens who satisfy 10-year residence requirements. Australia's Age Pension is a means-tested pension benefits available to persons aged 65 and above.

Summary of Issues for Consideration

31. (a) What strategic direction should be adopted for Hong Kong in response to the coming of an ageing population?
- (i) to reverse the ageing trend by introducing more proactive measures such as immigration and admission of workers, promoting parenthood policies and measures, etc.;
 - (ii) to adapt to the ageing trend by enhancing the productivity and capability of the local population, including the older persons, and to promote life-long education / retraining, active and healthy ageing, etc.; or
 - (iii) to slow down the ageing trend as a matter of priority so as to allow time for the community to prepare for the coming of an ageing society by introducing a combination of measures related to (i) and (ii) above.
- (b) What priority actions should be taken in the coming 7-9 years before the rise in dependency ratio and rapid ageing process begin?
- (c) International and Hong Kong experiences indicate that along with an ageing society, a much higher demand for public resources on age-related health and welfare spending will be required. In this light, what kind of strategic initiatives should be considered by the Government?

- (d) What further initiatives should be undertaken in the community (the Government, business, non-government organizations, and individuals) to promote active and healthy ageing in Hong Kong?
- (e) Should more flexibility and freedom for older population to make their lifestyle choices be promoted in view of increased life expectancy and people's desire to have a longer productive lifespan? If so, what actions should be taken?
- (f) Which are the areas that the Government should look into further to provide a more supportive social and living environment for the older population to live and work independently and harmoniously in the community?
- (g) Should the Government review the eligibility for subsidised public benefits of residents absent from Hong Kong for a long period of time?
- (h) Public benefits in Hong Kong are heavily subsidised by the Government instead of based on a contributory system in other economies. Should more public benefits be extended to make them portable given the possible induced demand? What are the strategic objectives of making public benefits portable?

Secretariat to the Commission on Strategic Development
June 2006

Annex 1**Annex 1 : Annual Expenditure on Social Security and Medical Services for Elderly Persons**

	2000-01 (\$Mn)	2001-02 (\$Mn)	2002-03 (\$Mn)	2003-04 (\$Mn)	2004-05 (\$Mn)	2005-06 (\$Mn)	2006-07 (Est.) (\$Mn)
CSSA ⁽¹⁾	7,209	7,535	7,872	8,030	8,021	8,132	8,421
OAA	3,563	3,581	3,574	3,636	3,659	3,706	3,915
DA ⁽²⁾	849	906	934	855	859	886	947
Home-based and Centre-based Community Care and Support Services and Subsidised Residential Care Services ⁽³⁾	2,740.8	2,978.5	3,198.6	3,336.3	3,129.5	3,173.2	3,315.9
Healthcare to Elders ⁽⁴⁾	11,831.6	13,066.9	13,196.5	13,932.1	13,293.8	13,206.6	13,221.0

REMARKS : In 2006 -07, the total estimated expenditure on social security and medical services for elderly persons is about \$30 billion.

For comparison purpose, the total estimated recurrent expenditure of the Government for the year is about \$200 billion.

Notes : (1) Refer to estimated expenditure on CSSA old age cases.

(2) Refer to estimated expenditure on DA cases with recipients aged 60 or over.

(3) Refer to total expenditure under Programme (3) - Services for Elders in the Controlling Officer Report of SWD

(4) Refer to expenditure of Hospital Authority on elders

Source : Health Welfare and Food Bureau, June 2006

**Annex 2: Mandatory Retirement Age and Age Entitlement to Public Pension
Broad Summary Comparisons in Five Selected Countries and Hong Kong**

	Canada	China	Japan	Sweden	USA	Hong Kong
<i>Mandatory Retirement Age</i>						
<i>General population</i>	At least after 65	60 for men 55 for women	increase from 60 to 65 (for men by 2013, for women by 2018)	No (earliest ≥ 61)	No	No
<i>Civil servants</i>	as above	as above	As above	No (earliest ≥ 61)	No	55-60
<i>Age Entitlement to Public Pension</i>						
<i>General population</i>	65	60 for men 55 for women	increase from 60 to 65 (for men by 2013, for women by 2018)	65 (disincentive early start at 61, incentive late start at 70)	increase from 65 to 67 (from 2003 to 2027)	60 for CSSA* 65 for OAA* 70 for HOAA*
<i>Civil servants</i>	65	60 for men 55 for women	increase from 60 to 65 (for men by 2013, for women by 2018)	65 (disincentive early start at 61, incentive late start at 70)	55-62	55-60

Note : There are detailed variations and specifications on the mandatory requirement age and entitlement of pensions provisions in each country. The table is prepared for broad comparison purpose.

* A proxy for comparison purposes