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香港總商會 1861

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21 June 2016

Mrs Carrie Lam, GBS, JP
Chief Secretary for Administration
Hong Kong SAR Government
25/F., Central Government Offices
2 Tim Mei Avenue
Tamar
Hong Kong

Dear Carrie,

Public Engagement Exercise on Retirement Protection

1. The Hong Kong General Chamber of Commerce welcomes the opportunity to comment on issues raised in the Government's consultation paper (CP) in relation to its Public Engagement Exercise on Retirement Protection.

2. Our comments are made in the context of Hong Kong's renowned business-friendly principles including a low and simple tax regime, and the spirit of self reliance and can-do attitude, as well as other virtuous qualities that have spawned a track record of success and sustained Hong Kong's competitiveness. It is therefore of paramount importance that we do our utmost to ensure that these traits are preserved so that Hong Kong can remain competitive. Any attempts, no matter how well-meaning, that could result in a shift away from Hong Kong's free market values to policies of free handouts are hazardous to Hong Kong's competitive health and should be avoided as much as possible.

3. At the same time, we recognise that Hong Kong is aging rapidly and it is our moral responsibility to care for society's senior citizens. However, cash handout represents but a fraction of post-retirement care (and should be targeted only at the needy). It is no less important to provide facilities and opportunities to enable them to continue to lead a healthy and fulfilling life. Universal coverage is necessary for the latter but not the former. Underlying all that is there needs to be general understanding and awareness that despite the will to do good there are competing demands on public finances, which are of a finite nature.

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4. Even if we were able to afford universal handouts, there is also the question of why these merit government funding when this means the diversion of monies away from other (equally if not more deserving) causes such as education or healthcare. Furthermore, universal coverage implies that many would enjoy overlapping benefits. This is true for retirees who are already on a pension scheme, or on ORSO/MPF, which in some cases may be augmented by voluntary top-up contributions from employers. Is this fair? Universal coverage may also fail to live up to its intent of providing "retirement" security, such as for those who have reached or exceeded the "prescribed" retirement age but continue to work and pay income tax. Is this necessary?

5. **It is therefore imperative that the policies we put in place are subject to rigorous impact assessments to prioritize where and how tax dollars can be best spent. We cannot afford wastefulness nor can we risk burdening our children with immense debt. We should avoid straying from our core qualities such as self reliance and guard against the potential hazards of social entitlement that could hijack well-meaning policies to the detriment of financial discipline and become a drain on resources. Above all, we must not do anything that may erode Hong Kong's competitive fire in any measure.**

6. We appreciate that the crafting of a retirement protection system is fraught with challenges but are particularly **wary of following in the footsteps of other jurisdictions where the problems of entitled retirement benefits have become a material drag on public finances due to an aging population and a shrinking tax base, or have the adverse effect of extinguishing our competitive fire**.

- ***General approach to retirement protection***

7. The Chamber supports unequivocally the basic principle of helping the poor including the impoverished elderly. A social entitlement programme is undesirable because it discourages ownership and accountability in providing for one's retirement and gives rise to a false sense of security by creating the illusion that financial support will be provided by the Government. **The Chamber therefore supports the option of "those with financial needs" as the optimum means of ensuring that scarce resources are deployed in a manner that is fair and has the most impact**. We envisage the need for further discussion on establishing an appropriate set of criteria for determining eligibility because the thresholds cited in the CP, namely, asset holdings of no more than $80,000 and $125,000 respectively for the single and married elderly, are too low to be meaningful.

8. As suggested in the CP, **there is room to enhance the existing retirement protection system in Hong Kong by optimising latent resources**. It would therefore be useful to explore such possibilities as tapping into personal assets to help "asset-rich, income-poor" retirees help themselves (Fourth Pillar). We also support the proposal of promoting financial literacy and the introduction of age-

appropriate investment financial products, such as a public annuity scheme, to strengthen self-sufficiency on retirement (Third Pillar).

9. **The discussion on retirement protection should also include a more flexible definition of the retirement age. As life expectancy improves, there is a compelling case for reviewing the retirement age, which is commonly set at 60.** The Chamber has argued for a removal of the retirement compulsion at that age leaving it open to people to remain at work thereafter should they wish to do so. The benefits associated with doing away with the artificial cap on working age include providing working income for older workers, easing labour shortages and reducing the dependency burden.

- ***MPF***

10. MPF in itself is a solid and useful construct, which the Chamber supports as an integral and important pillar in providing retirement protection for employees. The business community also understands the importance of and is committed to living up to its MPF obligations. **However, the MPF system, as it currently stands, has plenty of room for improvement. The existing inadequacies are quite pervasive and cannot be addressed effectively and meaningfully by singling out one aspect or two for review.** It is therefore disappointing to note from the CP the inclusion of only the issue of the MPF offsetting arrangement as part of the public discussion on retirement protection.

11. Between July 2001 and the end of 2015, the total amount of severance and long service payments paid from MPF accrued benefits exceeded \$28 billion. In 2015, the amount was in excess of \$3 billion. It can therefore be inferred that an abolition of the offsetting mechanism would have immensely dire financial repercussions on businesses. This is particularly the case of smaller companies, which typically operate on very tight budgets and cash flows. As SMEs account for 98% of the local business population and employ about 50% of the private-sector workforce, it is easy to imagine the adverse effects of abolition on these businesses and the resultant destruction in job opportunities.

12. It has been estimated that corporate net expenses would rise by around 6% if forced to provide for long service and severance payments in the event of abolition. For labour-intensive industries where wages often account for 80% of overheads, companies would have to add 5% to their operating expenditure to pay for long service payment obligations. Businesses could react by passing on the additional cost to consumers and/or by downsizing. Ultimately, many would be forced to fold.

13. It is useful to note that prior to MPF, employers were permitted under the Employment Ordinance to use their share of retirement contributions to offset severance or long service payments. Shortly before the introduction of MPF, the then Secretary for Education and Manpower commented at a July 1995 Legislative Council meeting that: "*The employers' contributions to a retirement scheme may be set off against any amount paid out for severance payments or long service payments. It is not appropriate to expect employers to pay twice.*" The Secretary also acknowledged the eventual need to address the issue on the co-existence of MPF with severance and long service payments. The decision to

incorporate the long-standing practice of an offsetting arrangement into the MPF system was made after extensive consultations and considerations to all relevant factors. Any proposal to abolish the MPF offsetting mechanism would therefore be in direct contradiction to the policy intent behind the offsetting mechanism.

14. It is therefore crucial that **the MPF system be subject to a comprehensive review with the objective of strengthening the private pension pillar by improving returns and cutting fees**. We note that the Mandatory Provident Fund Schemes Authority (MPFA) is already working on such enhancements as a Default Investment Strategy and an electronic platform to standardize, streamline and automate MPF scheme administration for the purpose of improving efficiency and reducing costs. The Chamber welcomes these initiatives but feels the process for completing such reforms to be too long to address the issues of 'leakages' and wastage that take the form of high fees and unclaimed benefits. It would also be useful to review the approach on how MPF is paid out when employees reach the age of 65. Instead of a lump sum payment, benefits could be distributed over a defined period, say, 10 years but subject to a monthly minimum.

15. Despite the good intentions of the MPF system, the general sentiment towards it is that of dissatisfaction and disappointment. Tellingly, there is little confidence in MPF's ability to provide adequate retirement protection. According to data compiled by the MPFA for the December 2000 to March 2016 period, the annualized rate of return, net of fees and expenses, was 2.6%. Notably, some funds underperformed the average annual inflation rate of 1.9% over the same period.

- ***Way Forward***

16. **The Chamber has been calling for a wholesale reform of the MPF system including an impact assessment study on the issue of the offsetting mechanism. Given the significance of MPF as a key pillar in the general scheme of retirement protection in Hong Kong, the Government must ensure that our retirement system can meet the intended objectives of being comprehensive, adequate, sustainable, affordable and robust**. We are therefore encouraged by a recent undertaking by the Government to conduct a proper and thorough review and assessment of the impact that abolishing the offsetting mechanism would have on businesses, the operating environment and the overall economy. This is a positive development and of particular significance in building a resilient retirement system.

17. The Government has acknowledged that it has a significant role to play in guiding the development of a viable retirement protection framework in Hong Kong and, to that end, **we look to the Government for leadership in formulating comprehensive and coherent policies for the community to consider and debate**.

18. We look forward to the consultation conclusions when these are available, as well as the opportunity of commenting again as and when the Government consults the public further on the issue.

Yours sincerely

Stephen Ng
Chairman

cc: Mr Matthew Cheung, Secretary for Labour and Welfare