Poverty in Old Age: a Ticking Time Bomb

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(Extract from this article was published in South China Morning Post 22nd Mar 2011)

Under immense public pressure, Financial Secretary John Tsang announced he would replace a proposed Mandatory Provident Fund (MPF) injection with cash handouts and a tax rebate. This unprecedented U-turn indicates that the government does not have an effective strategy for the redistribution of resources to strengthen the pension and welfare systems in the long run.

In addition to its failure to address the wealth gap and the needs of the poor, the government has also shown a misplaced faith in the MPF scheme, which highly benefits the fund providers while providing inadequate protection for retirees, particularly low-income earners.

Ever since its implementation in 2000, the MPF scheme has been criticised as inadequate and unfair. First, trustees impose an unacceptably high management fee on MPF accounts –1.85% on average, according to the Mandatory Provident Fund Schemes Authority. Over 10 years fund providers have earned an estimated HK$33.3 billion (see table 1). In other words, each of the 19 providers has gained an average HK$1.75 billion, while the 2.5 million MPF members have lost an average of HK$13,207.

Worse still, the MPF scheme does not allow low-income earners to maintain their pre-retirement living standard. According to a 2009 report by the Organisation for Economic Cooperation and Development (OECD), a low-income earner in Hong Kong who starts work at 20 and retires at 65 will receive pension payments worth only 35% of his average lifetime earnings. The average among the 34 member countries of the OECD is 71%. Thus a Hong Kong retiree faces a much lower standard of living than his/her counterparts in the developed world.

For those at the bottom of the pay scale, MPF pension payments are inadequate to meet even their basic needs upon retirement. According to 2010 statistics from the

1 Mandatory Provident Fund Statistical Digest 2001-2010
   (http://www.mpfa.org.hk/english/quicklinks/quicklinks_sta/quicklinks_sta_mpf.html)
Financial Services and the Treasury Bureau\(^3\), a worker who starts work at age 39 and earns an average monthly income of less than HK$5,000 would receive a pension payment of HK$169,000 at age 65. Given that the average male life expectancy is 79 years, the worker would receive only HK$939\(^4\) monthly.

Even for somewhat higher-income employees, the pension payment is still very low. For instance, Mr. Wong, aged 66, worked as a security guard for HK$6,500 per month since 2001. After joining the MPF, he invested in conservative funds. At 65, he received a pension payment of only HK$48,000. In other words, his average monthly income is only HK$267\(^5\), given that the average life expectancy is 79 years. How can this meagre pension cover his monthly expenses?

Lastly, the MPF scheme does not cover the economically inactive population, which includes housewives as well as many elderly and disabled people. Thanks to Hong Kong’s inadequate pension scheme, the elderly poverty rate reached 40% in 2010, the highest among all age groups, according to an Oxfam study of the living and health conditions of the elderly poor.

Worse, the proportion of the population over age 65 is estimated to increase from 13% in 2009 to 28% in 2039\(^6\). If the government remains too complacent about the MPF scheme, old-age poverty will become a ticking time bomb.

With financial reserves of HK$614.1 billion\(^7\), why does the government not take advantage of this opportunity to set up a universal pension scheme and improve the people’s retirement protection? Oxfam Hong Kong calls on the government, first of all, to release the report on the Sustainability of Three Pillars for Retirement Protection in Hong Kong which the Central Policy Unit commissioned an academic to do in 2005\(^8\); second, to launch a public consultation on a universal pension scheme; third, to establish a fund to support the new pension scheme; and finally, to collaborate with citizens to design a sustainable universal pension scheme that can provide adequate protection to all citizens.

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\(^3\) [http://www.info.gov.hk/gia/general/201003/10/P201003100155_print.htm](http://www.info.gov.hk/gia/general/201003/10/P201003100155_print.htm)

\(^4\) HK169,000 is divided by 180 months (i.e. 15 years, from age 65 to age 79)

\(^5\) HK$48,000 is divided by 180 months (i.e. 15 years, from age 65 to age 79)


\(^8\) The Fact Sheet: Historical Development of Retirement Schemes in Hong Kong. Legislative Council Secretariat. FS 18/04-05. p.6.
<table>
<thead>
<tr>
<th>Year</th>
<th>Net asset values of all schemes (HK$ billion)</th>
<th>Annual Management Fee</th>
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<tbody>
<tr>
<td>2001</td>
<td>33,498</td>
<td>0.6197</td>
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<tr>
<td>2002</td>
<td>55,063</td>
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<td>2008</td>
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<td>2009</td>
<td>308,870</td>
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<td>2010</td>
<td>365,443</td>
<td>6.7607</td>
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Accumulated Management Fee in 10 Years: 33.3

Total Number of Trustees: 19
Total Number Of MPF members: 2,522,000

Gain of Each Trustee: HK$ 1.75 (billion)
Loss of Each MPF Member: HK$13,207

Source: Mandatory Provident Fund Scheme Authority.
Note: Average Fund Expense Ratio Fund is 1.85%