



HONG KONG RETAIL MANAGEMENT ASSOCIATION

Submission on “Retirement Protection Forging Ahead” Consultation

21 June, 2016

In regard to the captioned consultation, the Hong Kong Retail Management Association (the Association) would like to present our members’ views in the following deliberations:

1. In view of the rapidly ageing population, the Association opines that the Government should take proactive initiatives to strengthen retirement protection for Hong Kong people; while at the same time, it is equally important to achieve a good balance on the social affordability and financial burden on public expenditures to ensure a protection system is stable and sustainable.
2. Apart from the Government, retirement protection also requires long-term commitment of other stakeholders in the society. In face of continued sluggish growth due to global economic uncertainties and its negative impact on various sectors in Hong Kong, we view that the limited social resources should be cautiously allocated to maximize the number of elders in genuine need.

Support the “Those with Financial Needs” Option

3. Among the two options (i.e. the “regardless of rich or poor” option and the “those with financial needs” option) presented by the Government, the Association is in support of the “those with financial needs” option.
4. As shown in the forecast of the consultation document, the estimated new expenditure will reach HK\$2,395 billion in 50 years if the “regardless of rich or poor” option is to be adopted, which is 10 times higher than the “those with financial needs” option. Such a huge variance obviously revealed the question of social affordability and the extent of social support for retirement.



5. The Association believes the “those with financial needs” option would be a more effective mean of proper utilization of public resources in helping the elderly in real need; while the “regardless of rich or poor” option may imply misallocation of resources and worsen the fiscal situation of the Government in the long run.
6. As for the asset review measure, the Association supports a proper and realistic approach to draw a line on asset limit. However, the proposed asset limit under the simulated “those with financial needs” option (i.e. \$80,000 for elderly singletons and HK\$125,000 for married elderly couples) may be too stringent and not being able to reflect the reality in general, resulting the possibility of excluding some elders with genuine needs from the scheme.
7. The Association also has concerns over the capital sources to support the retirement protection scheme. We think that increasing taxes will substantially dampen investment sentiment in Hong Kong, slow down our commercial development and undermine Hong Kong’s competitive edge as being one of the regions with the lowest tax rates in the world.
8. At the same time, the extension of tax items may diminish the spending power of younger generation as they have to bear a much heavier social burden to support the ageing population. Therefore, we view that other proposal of exploring capital sources to facilitate the sustainable and affordable retirement protection scheme should be expedited.

Mandatory Provident Fund (MPF) Scheme

9. As for the Mandatory Provident Fund (MPF) Scheme, the Association strongly opposes the abolishment of the long-established offsetting arrangement, which has been in smooth operation for over 20 years under the consensus of employers and employees since 1995.
10. Companies’ MPF contributions used to offset severance and long service payments exceeded HK\$25 billion between July 2001 and December 2014. Since 2009, this amount has exceeded HK\$2 billion annually and the figure



rose to HK\$3 billion in 2014. Such huge sum of contributions clearly indicated that abolishing the offsetting mechanism would have a severe financial impact on businesses, particularly the SMEs.

11. As one of the most labour-intensive business sectors, a large amount of the retail companies' total expenditure is on labour cost. Should the offsetting arrangement be abolished, the retail sector will suffer from an unpredictable hike in their labour cost, which will eat into their financial capability and lead to extensive closedown; in particular for most SME retailers with a tight profit margin. The possible wind-up of retail businesses and the act of shifting cost burden to consumers would likely be resulted.
12. It is a fact that the offsetting mechanism has been allowing employers to secure their budget control on manpower cost in a predictable manner over the years. If it is abolished, extra allocation of funds for long service payments and severance payments will incur, which in turn will greatly hinder business development. By the same token, the increase in manpower cost will also deter business startups in Hong Kong.
13. Hong Kong's employers have already been suffering from high costs in operation including the ever increasing manpower cost induced by Statutory Minimum Wage rate as well as the labour shortage. Any further increase in the manpower cost will be a huge financial burden for employers, which will definitely affect Hong Kong's overall competitiveness.
14. To strengthen the public's confidence on the MPF Scheme as one of the effective retirement protection pillars, the Government and the MPF Authority should take improvement measures to lower the administration fees.

Conclusion

15. We view that the ultimate goal of a retirement protection system is to promote self-reliance, lengthen productivity cycle of the working population, and lower dependency ratio while establishing a safety net for



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the needy. As such, we urge the Government not to abolish the current MPF offsetting mechanism; while focus on measures to create favourable conditions for encouraging post-65-year-old employment, promote saving concept during productive years and subsequently a secured retirement life.

16. Last but not the least, we urge the Government to conduct in-depth impact analysis on fiscal burden of the business sector, so that the community can have sufficient data for further discussion before reaching a broad consensus on the subject of retirement protection.

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