Chapter 2
Challenges of Ageing Population

Rapidly ageing population

2.1 Hong Kong people are living longer. Among the elderly people now aged 65, 60% are expected to live to the age of 85 or above and 40% to over 90. Fertility rate is another factor that affects Hong Kong’s demographic structure. Our total fertility rate declined from 1.9 births per woman in 1981 to a historical low of 0.9 in 2003, before rebounding to the level of 1.2 to 1.3 in recent years.

2.2 Given the longer life expectancy and low birth rate, and that the “baby-boomers” are approaching retirement age, the elderly population will continue to grow over the coming some 40 years. By around 2040, about one in every three Hong Kong people will be an elderly person. According to the latest population projections\(^1\), the elderly population aged 65 or above will more than double from 1.07 million (or 15.4%) in 2014 to 2.58 million (or 35.9%) in 2064 (see Diagram 2.1). The elderly population aged 75 or above will increase from 0.53 million (or 7.6%) to 1.62 million (or 22.6%) over the same period.

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\(^1\) Population and labour force projection figures cited in this consultation document are the latest projection results published by the Census and Statistics Department in September 2015. These figures reflect the most likely scenario assuming that current policies and past trends remain unchanged. If there are new policies implemented or changes in the trends, the population and labour force figures will be different. The Census and Statistics Department will closely monitor the latest population and labour market developments, and update the projections as necessary.
**Shrinking workforce**

2.3 In contrast to the rapidly growing elderly population, the number of younger people (aged 15 to 64) is anticipated to drop significantly from 5.04 million (or 73.0%) in 2014 to 3.92 million (or 54.6%) in 2064. Younger people are the mainstay of the labour force. Along with the drastic reduction of people in this age group, the labour force, after a slight increase from 3.6 million in 2014 to a peak of 3.65 million in 2018, will decrease continuously and down to 3.11 million in 2064. The labour force participation rate (LFPR), excluding FDHs, will decrease from 59.3% in 2014 to 48.6% in 2064 (see Diagram 2.2). It is noteworthy that LFPR of the elderly population will rise from 8.7% in 2014 to 9.4% in 2064.

**Diagram 2.2 Labour force starts to shrink after reaching the peak in 2018 (excluding FDHs)**

2.4. The dependency ratio will worsen quickly. The number of children and elderly people to be supported per 1,000 people of working age (i.e. aged 15 to 64) will increase from 371 in 2014 to 831 in 2064 (see Diagram 2.3). With declining younger population and growing elderly population, as well as longer life expectancy of the elderly, a retirement protection system which relies heavily on future generations to support the elderly is difficult to maintain its financial sustainability.

**Worsening dependency ratio**

**Impact on public finances**

*Economic growth set to slow and affecting tax revenue*

2.5. With a continuously shrinking labour force, our long-term economic growth potential will inevitably come under pressure even if our labour force productivity continues to rise. As the latest labour force projection outcome is lower than the previous projection, coupled with the intensified ageing trend, our long-term economic trend growth is expected to decelerate gradually (see Diagram 2.4). The average economic growth in real terms over the 27 years from 2015 to 2041 is assumed to be 2.7% per annum, slightly lower than the 2.8% assumed in the 2014 Report of the Working Group on Long-Term Fiscal Planning. The deceleration in economic growth will become more noticeable after 2041, with the average economic growth rate in real terms over the 23 years from 2042 to 2064 further down to 1.6%². Such a trend will adversely affect the Government’s tax revenue and other incomes, adding pressure to public finance and increasing the risk of fiscal deficits.
Diagram 2.3  Worsening dependency ratio (excluding FDHs)

<table>
<thead>
<tr>
<th>Year</th>
<th>Child dependency ratio</th>
<th>Elderly dependency ratio</th>
<th>Overall dependency ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>159</td>
<td>211</td>
<td>371</td>
</tr>
<tr>
<td>2024</td>
<td>192</td>
<td>353</td>
<td>546</td>
</tr>
<tr>
<td>2034</td>
<td>176</td>
<td>505</td>
<td>680</td>
</tr>
<tr>
<td>2044</td>
<td>163</td>
<td>574</td>
<td>738</td>
</tr>
<tr>
<td>2054</td>
<td>177</td>
<td>629</td>
<td>806</td>
</tr>
<tr>
<td>2064</td>
<td>173</td>
<td>658</td>
<td>831</td>
</tr>
</tbody>
</table>

Notes: Child dependency ratio refers to the number of persons aged under 15 per 1 000 persons aged 15 to 64. Elderly dependency ratio refers to the number of persons aged 65 or over per 1 000 persons aged 15 to 64. Child dependency ratio and elderly dependency ratio may not add up to overall dependency ratio due to rounding.

Source: Census and Statistics Department

Diagram 2.4  Economic growth will be dragged by insufficient labour force

Year       Projections/Assumptions
          | Total factor productivity | Capital deepening | Labour force | Economic growth* potential |
1980-96    | 6.3                      | (2.4)             | (1.7)        | (2.2)                     |
1997-2014  | 3.3                      | (1.6)             | (1.6)        | (1.1)                     |
2020-24    | 2.9                      | (2.0)             | (1.1)        | (1.1)                     |
2025-34    | 2.5                      | (1.7)             | (0.9)        | (0.9)                     |
2035-44    | 2.3                      | (1.6)             | (0.6)        | (0.6)                     |
2045-54    | 1.6                      | (1.3)             | (0.6)        | (0.6)                     |
2055-64    | 1.4                      | (1.2)             | (0.3)        | (0.3)                     |

Notes: ( ) Rates of contribution of the various factors of production towards the economic growth potential.
(∗) Economic growth potential refers to the potential output growth assuming full employment and the utilisation rates of other factors of production at normal levels. As such, the growth rates from 1980 to 1996 and from 1997 to 2014 shown in the diagram are slightly different from the actual GDP growth in the same periods.
Figures may not add up due to rounding.

Source: Economic Analysis and Business Facilitation Unit

2 The nominal economic growth rate will also be adjusted downwards correspondingly. The average nominal economic growth rate over the 27 years from 2015 to 2041 is assumed to be 4.3% per annum, slightly lower than the 4.4% assumed in the Report of the Working Group on Long-Term Fiscal Planning. Meanwhile, the average nominal economic growth rate over the 23 years from 2042 to 2064 would drop further to 3.1% per annum.
2.6 The above projections of long-term economic growth are based on the prevailing trends and conditions. Our economic development is at present constrained by two major factors: manpower and land. If the issues of manpower and land resources could be addressed properly, we would not rule out the chance for our economy to grow faster in the future.

**Rising public expenditure**

2.7 An ageing population will lead to a much higher demand for healthcare and social welfare. This comes not only as an inevitable result of a rapidly growing elderly population, but also as a result of a longer lifespan which will lengthen the period of time for which support or services are needed. Furthermore, except for public housing and some social security programmes for the elderly, the majority of support or services for the elderly are non-means-tested, including the Old Age Allowance (OAA), healthcare, residential and community care services, the public transport fare concession scheme and the Elderly Health Care Voucher Scheme.

2.8 In 2014-15, the government recurrent expenditure on the elderly (excluding public housing) was about $5.3 billion, accounting for about 20% of the total government recurrent expenditure. In other words, in every $5 of recurrent expenditure, about $1 was spent on supporting the elderly. Such expenditure mainly included:

(a) $24.1 billion on elderly social security programmes (an increase of 70% over 2010-11);
(b) $23.9 billion on elderly healthcare services (an increase of 39% over 2010-11);
(c) $6.2 billion on residential and community care services for the elderly (an increase of 57% over 2010-11); and
(d) $1.1 billion on the Elderly Health Care Voucher Scheme and the public transport fare concession scheme (an increase of 846% over 2010-11).

2.9 If solely adjusted by the growth of the elderly population, discounting the factor of inflation and assuming that there is no service improvement, the estimated expenditure related to the elderly people in 2064 will be two to four times the current expenditure (see Diagram 2.5).

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3 The one-off relief measures announced in Budget have not been included.
4 As the public transport fare concession scheme was not launched until June 2012, the percentage here only reflects the increase in expenditure of the Elderly Health Care Voucher Scheme over the period from 2010-11 to 2014-15.
Tougher times ahead for public finances

2.10 According to a fiscal sustainability assessment on public finances in the report of the Working Group on Long-Term Fiscal Planning appointed by the Financial Secretary released in March 2014, our ageing population will lead to a surge in public expenditure, even if we assume that there is no inflation and no service enhancement (in other words, not having taken the additional resources required for improving retirement protection into account). If government expenditure keeps growing faster than government revenue and economic growth for a long period, the Government may start facing a structural deficit problem around 2029-30 (i.e. within 14 years from now). Unless the expenditure on other public services and policy areas is reduced, it is highly likely that the Government will have to raise taxes or introduce new taxes to tackle the deficit problem. The implementation of any retirement protection proposal that involves additional public resources will surely bring additional pressure on public finances. In this regard, one of the key considerations for retirement protection is to avoid creating unbearable financial burden for the community, and to optimise the use of limited resources to help the elderly in need in a targeted and effective way.

Retirement Protection: Whose responsibility?

2.11 An ageing population will increase the pressure on public finances. How to ensure the sustainability of a retirement protection system; how to share the responsibility of supporting the elderly among individuals, families and the community in a fair and effective manner; and how to balance the interests across different generations are the issues that the community should examine collectively.
2.12 The Report pointed out that there were divergent views over the issue of “who is responsible” for retirement protection. Some considered that the responsibility should be on individuals and their families and that the community should only provide assistance for those elderly people who were in financial needs. Others held the view that the Government had the capacity and means to provide basic livelihood protection for all elderly people.

2.13 In 2012, the Census and Statistics Department conducted a Thematic Household Survey on “Retirement Planning and the Financial Situation in Old Age”. The Survey provided further objective data that shed light on people’s views as to “who is responsible”, and on the support that elderly retirees were receiving from their families, and people’s preparation for their retirement. The major findings are as follows (see Diagram 2.6):

(a) Nearly 80% of the respondents opined that they themselves (49.9%), their children/grandchildren (19.0%) and their spouse (10.2%) should be most responsible for providing their financial protection after retirement/in old age. Only less than a tenth (9.5%) of respondents considered that the Government should be the most responsible party. This shows a general consensus in the community that one should be responsible for his/her own retirement protection, and indicates that the sense of self-reliance and mutual support among family members remain strong.

(b) Around 70% of the current generation (at the time of survey) of retired persons indicated that their family members provided financial support for them. The median average amount of monthly financial support provided by family members was $4,000 (at 2012 price). This indicates that family support remains a source of income for many elderly people.

(c) Comparing the current and future generations (at the time of survey) of retired persons, 79.2% of the latter had retirement protection from work, much higher than the 33.6% for the former. Among the future generation, 50.9% had savings and investment, and 17.1% had purchased insurance to cover possible medical and healthcare expenses for various chronic illness in old age. The corresponding percentages for the current generation were only 39.1% and 5.5% respectively. These statistics suggested that as the retirement protection system matured and with a change in mindset, the future generation would be better prepared for retirement than the current generation, though there is still scope for improvement.

2.14 Over the past 30 years, the life expectancy of men and women aged 65 has increased by about 5 years and 6 years respectively. Elderly people aged 65 in 2014 are expected to live to the age of 85 (for men) or 89 (for women) on average. In other words, their retirement life can be as long as 20 or 30 years. Not having planning to get financially prepared for retirement life at a younger age will indeed lead to financial risk due to longevity. How much retirement income will be adequate? Can one's MPF contributions and personal savings last him/her through his/her life? When withdrawing one's MPF benefits, how should the lump sum payment be deployed to ensure a steady stream of income for the days to come? How should one improve his/her retirement life by self-owned property? A worry-free retirement life hinges on one's planning, support from family and protection provided by the system.

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5 Excerpts from Page 6 of the Report’s Executive Summary of the Report: “Some considered that old age living protection should be the responsibility of individuals and their family and not be laid on others nor should it be wholly financed by the government. Overseas experience was frequently cited to show that universal retirement protection was not viable. In contrast, some views considered retirement protection as a civil right and all senior citizens, rich or poor, should enjoy a fully dignified life”.

Excerpts from Page 6 of the Executive Summary of the Report: “Some thought that in view of limited financial resources, the government should only provide for the financially needy elders and not for all senior citizens. On the contrary, some thought with the level of Hong Kong’s economic development and the huge financial reserve, the government definitely had the capacity and means to provide for basic livelihood protection for all senior citizens”.

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Elderly poverty situation

2.15 Whilst more and more elderly people are making better preparation for their retirement life, some are still not adequately protected under the existing system. There should be no disagreement in the community that the support for the elderly in need should be strengthened. The question is how to identify those who need further support.

2.16 Public discussion tends to focus on the elderly people below the poverty line. In 2014, about 290 000 elderly people were still living below the poverty line after recurrent cash intervention*. They accounted for 30% of the total elderly population. There is no doubt that as much as 290 000 elderly people living in poverty should not be dismissed lightly. However, we must not overlook the

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Distribution of the some 290 000 elderly persons by the type of social security benefits received is as follows:

<table>
<thead>
<tr>
<th>Social Security Benefit</th>
<th>Number of recipients (percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSSA</td>
<td>48 000*(16%)</td>
</tr>
<tr>
<td>OALA</td>
<td>118 400 (40%)</td>
</tr>
<tr>
<td>OOA</td>
<td>67 000 (23%)</td>
</tr>
<tr>
<td>DA</td>
<td>7 600 (3%)</td>
</tr>
<tr>
<td>Not receiving any social security</td>
<td>52 800 (18%)</td>
</tr>
<tr>
<td>Total</td>
<td>293 800 (100%)</td>
</tr>
</tbody>
</table>

* Not all the elderly residing in CSSA households are receiving CSSA. Hence this figure is slightly different from that in paragraph 2.17 and diagram 2.7.
limitations of the poverty line which only takes income into account. Some elderly people who are “asset-rich, income-poor” may be classified as poor in statistical terms, thus inflating the elderly poverty rate.

2.17 Among the 290,000 or so poor elderly people, 17% were living in CSSA households, and their “recognised needs” were covered by the CSSA Scheme. Of the remaining 83% or 245,000 poor elderly people who were not living in CSSA households, about 140,000 claimed that they did not have financial needs. This indicates that not all elderly people living below the poverty line need support. They may be those “asset-rich, income-poor” elderly people.

2.18 As to the remaining 100,000 or so non-CSSA poor elderly people, only about 35,000 claimed that they had financial needs or were applying for CSSA. Among them, about 50% were living in self-owned properties with no mortgage, while another 40% were public rental housing (PRH) tenants. Their housing needs have largely been met. At the same time, among these 35,000 elderly people, 58% were receiving OALA, around 24% were receiving non-means-tested DA or OAA, and 17% were not receiving any social security benefits at all (see Diagram 2.7). From the above analysis, we can see that the number of elderly people who need further financial support should be much smaller than the number of elderly people living below the poverty line. In order to effectively tackle the issue of elderly poverty, the CoP is of the view that we should not simply look at the number of elderly people living below the poverty line but should focus on those poor elderly who had financial needs, including the 20,000 or more elderly OALA recipients who indicated that they still had financial needs. Moreover, since the poverty line is not a “poverty alleviation line”, elderly people living above the poverty line who are clearly facing poverty risk also deserve our attention when further policy intervention is considered.

2.19 Another data showing an improvement of the elderly poverty situation is the percentage of elderly people receiving various social security benefits under the zero pillar. The percentage has continued to decline over the past ten years or so, from 83% in 2002 to 79% in 2006, further to 76% in 2011, and standing at 73% currently. In particular, the percentage of elderly people receiving CSSA gradually decreased from 19% in 2004 to 13% in mid-2015. This should allay the concern of some people who have commented that an ageing population would lead to a sharp increase in the number of elderly CSSA cases. Nevertheless, as Hong Kong people are living longer, when elderly people have exhausted all their MPF benefits or personal savings, they may need to apply for CSSA or OALA to support themselves financially. The increase in life expectancy is still a potential factor affecting the expenditure on social security.

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7 The data has been collected by the Census and Statistics Department’s General Household Surveys since 2010. When the monthly income of an interviewed household fell below a certain level, they would be asked “Why don’t you apply for CSSA?” and would be given multiple answers to choose from. Some households chose to indicate that they did not have financial needs. Some said that they had financial needs but were ineligible or were applying for CSSA. There were also some households who refused to answer. Over the past five years, about 60% of non-CSSA households consistently claimed that they did not have financial needs.
The future demographic structure will pose a huge challenge to the sustainability of the retirement protection system. To keep the system sustainable, the responsibility to provide for elderly people should not be borne by any single party. Instead, it should be shared among individuals, families and the community in an equitable manner so as to avoid increasing the burden on the next generation. At the same time, the traditional values long cherished by society such as self-reliance and mutual support among family members should be upheld. In fact, according to the survey mentioned in paragraph 2.13 above, the public generally agreed that they themselves and their family should be responsible for preparing for their retirement, and that the current generation has better preparation for their financial needs after retirement. Furthermore, a large number of retirees were receiving financial support from their families. In considering how the retirement protection system can be improved, the community must have full regard to these factors.

Organisations in support of universal retirement protection and some members of the CoP, while not objecting to the principle of shared responsibility, still insist that retirement protection adopting the “regardless of rich or poor” approach is the civil right of all senior residents. They believe that given the level of economic development of Hong Kong and its abundant fiscal reserves, the Government definitely has the capacity and means to provide across-the-board basic livelihood protection for all elderly people.