

Critically present social security system



**ASSIGN
BUSTER**

No city in the world is as ironic and contradictory as Hong Kong. This city has not only the 6th highest per capita GDP, but also the highest Gini coefficient in the world (World Bank, 2011). Fortunately, the Hong Kong government isn't turning a blind eye towards this dilemma but are instead actively looking for a trade-off between economic performance and social welfare. One notable example is the re-establishment of the Commission on Poverty, it is hoped that a clearly-defined poverty line will shed a new light into the poverty situation in Hong Kong.

Another important policy in recent years is the implementation of minimum wage law, which has been in effect for two years aiming to guarantee a basic wage for low-income workers, however its effect on overall employment level in Hong Kong is still to be determined. In this essay, I will first examine the overall trend and size of poverty in Hong Kong, then move on to assess the effectiveness of the present social security system, as well as the minimum wage in eradicating poverty in Hong Kong. Poverty, is an ambiguous term especially in Hong Kong.

The United Nations places the benchmark for poverty as living under a monthly income less than or equal to half of the median household income of equal size households. This is the definition that the Commission on Poverty is likely to adopt. But before the launch of official poverty line people are considered poor only if they apply for Comprehensive Social Security Assistance (CSSA), which eligibility is largely determined by nominal income. As a result, the number of people applying for CSSA decreased after minimum wage law has been imposed.

In this essay therefore, I will adopt the UN definition of poverty in examining its trend and size in Hong Kong. Poverty rate up to the year 2011 was the lowest since that of 2001. Before 2011, there had been an overall increasing trend in both the number of households living in poverty as well as the poverty rate. In this sense, 2011 can be seen as a watershed year; the poverty rate plummeted to 17.1% when compared to 17.9% in the previous year, which meant a reduction of 55000 people suffering from poverty.

Additionally, the total number of poor households had been rising from 2001 to 2007, but this trend started to decline from then on. The total number of poor households in 2011 was 444,000, when compared with that of the years 2007 and 2010; there had been a reduction of 11,000 and 7000 households respectively. In spite of the declining poverty trend and size, income disparity in Hong Kong has been worsening. In the year 2001, the median monthly income of high-income group was \$31,000 while that of low-income group was \$10,000, which meant that the former was 3.1 times that of the latter.

However, this disparity continued to grow and in the year 2011, the median monthly income of the high-income group increased to \$35,000, while that of the low-income group plunged to \$9000, which meant that the high-income group had a monthly income 3.5 times more than that of the low-income group. In brief, it is undeniable that the declining trend and size of poverty has been promising, but that was largely due to the thriving economy instead of governmental efforts, at the same time, the income gap has been widening despite the implementation of minimum wage law.

These statistics all indicate that the current social policies are inadequate in eliminating the imminent threat of poverty. The social security system in Hong Kong is a three-tier system consisting of social assistance and social allowance in the form of Comprehensive Social Security Assistance and Old Age Allowance, mandated occupational pension in the form of Mandatory Provident Fund as well as private saving. In the remaining part of the essay, the effectiveness of the above social security policies in lifting poverty will be assessed one by one.

The Comprehensive Social Security Assistance was renamed after the Public Assistance Scheme in 1993 has the sole purpose to provide “ a safety net for those who cannot support themselves financially. It is designed to bring their income up to a prescribed level to meet their basic needs. ” (Social Welfare Department, 2012) It is a non-contributory and means-tested scheme financed wholly by the government. CSSA payments can be broadly classified into three categories: standard rate, supplements and special grants.

Standard Rates from 2012 is divided into 5 types: elderly person aged over 60 or above, ill health adult under 60, disabled child, able-bodied adult aged under 60 and able-bodied child. The amount of standard rates payable to each type differs, but they are under the same guiding principles; the standard rates for children and seniors are higher than those of the adults, rates for single individuals living alone are greater than those of family members, and rates will increase with levels of severity of disability. Tsoi, 2002) Additionally, there are five types of supplements. Long-term supplement is an annual payment to recipients who have been receiving <https://assignbuster.com/critically-present-social-security-system/>

assistance for at least 12 months for the replacement of household and durable goods. Single parent supplement is a monthly payment to single parent families with special difficulties in bringing up their families.

Community living supplement is a monthly payment to old, disabled and certified ill-health CSSA recipients living in the community instead of any institutions.

Transport supplement aims to promote social integration and geographical mobility by providing monthly assistance to certified 100% disabled as well as population between 12 to 64 years of age. Last but not least, the intention of the residential care supplement is to relieve the accommodation burdens of old, disabled and certified ill-health CSSA applicants who are not living in subsidised housing estates. Besides, a range of special grants are also set up to meet applicants' special needs including school fees, school-related expenses, essential traveling expenses and so on.

Famous English philosopher Midgley once commented that redistributing wealth in the form of social assistance has the " most direct potential impact on the poverty problem. " She identified three necessary conditions in order to fully realize this potential, first, social assistance must be financial by progressive taxation, second, the level of benefit provided must be sufficient to raise recipients out of poverty and third, needy people must have easy access to social assistance schemes and that these schemes would not deter them from applying for help. Tsoi, 2002). With applies the above mentioned three principles to Hong Kong, it is worthy to highlight that Hong Kong only fulfilled the first condition out of the three. In the following paragraphs, the low effectiveness of the CSSA will be discussed with respect to its level of

benefits, process of application as well as incentives for its recipients to reintegrate into the job market. The level of benefits by the standard rates of the CSSA cannot reflect the actual needs of its recipients, but are in fact set arbitrarily. At the oment, the standard rates of CSSA recipients are reviewed and adjusted annually by the Legislative Council to reflect the changes in Price Level by the Census and Statistics Department. The Consumption Price Index however, is a reference to the household expenditure of the 25% of the population with the lowest income. It is highly dubious as to whether the household expenditures of the poor households would be an authentic indicator and correspond to what they actually need to support their daily living. In addition, some CSSA recipients described the process of application as humiliating and intimidating.

According to a joint project by the Department of Applied Social Sciences in Polytechnic University and Oxfam Hong Kong on Perception and Utilization of the CSSA in 2007, it was found that some recipients felt that their applications were always delayed and mishandled. Some applicants even accused the social security officers as having bad manners and lack empathy. These findings were found out after in-depth interviews and group discussion, although it is questionable as to the representativeness of the sample size, the critique to the “ humiliating” application procedures must point to some bearing of truth that the CSSA recipients feel.

Besides, some social workers in the study also complained that “ some officers tend to insult and threaten the applicants by making unreasonable requests”. Going back to Midgley’s third condition in order to eradicate poverty which concerns the access to social security must not deter the

needy from applying; the Social Services Department could clearly do a better job. Furthermore, there is always an unspoken concern that receiving CSSA would encourage a “ dependency culture”, especially when the CSSA mechanisms do not encourage able-bodied recipients to attain economic independence.

Contrary to common misconception that only able-bodied lazy people and new immigrants would apply for CSSA, most CSSA applicants, amounting to 60% (Oxfam, 2007) treat social security as the last resort to alleviate their dire financial circumstances. However, due to a lack of support services, only 8%-10% of able-bodied CSSA recipients are able to re-enter the competitive job market (Ming Pao Daily News, 2000) through the Special Job Attachment Programme. In addition, the additional cost for attempting to re-enter the job market may put an extra toll on the families receiving CSSA, let alone some single parent’s families with insufficient child-care facilities may choose to keep on receiving welfare instead of working. In short, CSSA do not provide sufficient incentive for its recipients to re-join the work force, which is the only way to escape poverty. Another aspect of the social security system in Hong Kong is mandated occupational pension, which is in the form of Mandatory Provident Fund in Hong Kong. It is a compulsory, occupation-related scheme with defined monthly contribution by both employers and employees.

The Mandatory Provident Fund Schemes Ordinance was passed in 2000 with the hope of strengthening the safety net and retirement protection.

Contribution to the MPF is mandated to be 10% of the employee’s income with which 5% is contributed by his/her employer. Besides, the mandatory

<https://assignbuster.com/critically-present-social-security-system/>

contribution is adjusted with relevance to employees' income. After the implementation of minimum wage, the monthly relevant income is readjusted, for employees with monthly income less than \$6500, only their employers are mandated to contribute 5% of relevant income, this becomes the minimum contribution.

On the other hand, for employees with income higher than \$25000, both employers and employees are required to contribute \$1250, this becomes the maximum contribution. All MPF contributions will be injected into registered MPF trustee in the market chosen by the employers, but now, employees will be able to choose new MPF scheme annually based on their performance. In the following paragraphs, the limitations of the MPF scheme will be discussed including its limited coverage as well as inadequate retirement protection which undoubtedly hamper its effectiveness.

As aforementioned, MPF is an employment-related protection scheme, which means that only people with long-term employment contract will receive retirement protection. The MPF only have limited coverage and do not have universal protection as people excluded from the workforce including the sick, the disabled, housewives, hawkers, domestic employees and so on are unprotected, this amount to quite a sizable portion in the population.

Besides, the employers might try to evade from the mandated contributions by altering the terms of employment contract.

Employers are legally bound to contribute to MPF for their employees if they are employed for more than 60 days, therefore, some employers may deliberately change the employment contract to 59 days or terminate the

contract and re-employ the employees. In brief, the MPF scheme does not provided for universal protection in the sense that a significant portion of the population is left unprotected, let alone some canny employers attempt to alter the employment contract in order to avoid contributing to their employees' retirement protection scheme.

Furthermore, the predicament of the MPF Scheme is that despite its objective is to provide retirement protection and reinforce the safety net, the protection is in fact far from sufficient. MPF is a define-contribution scheme but it is not a defined-benefits scheme, which meant that employees' contribution is contingent upon many factors including the duration of contribution, returns from investments by the trustees after deducing the high administrative and transaction costs incurred, as well as the amount of contribution.

This led to the inevitable unpredictability of benefits which is neither guaranteed by the trustees nor protected by the government. Besides, the scheme was introduced only in 2000, which meant that people around retirement age at that time would receive either little or no protection at all due to the short contribution period. At the moment, elderly poverty was one of the severest forms of poverty in Hong Kong. In short, contrary to its initial intention, the MPF does not guarantee retirement protection, instead only added more uncertainties and unpredictability to lives after retirement.

The statutory minimum wage was passed in 2010 and fully implemented Labour Day of 2011. It aims at " striking an appropriate balance between forestalling excessively low wages and minimising the loss of low-paid jobs

while sustaining Hong Kong's economic growth and competitiveness (Labour Department, 2011). The initial minimum wage rate was set at \$28, but the commission set up by the government to review the minimum wage rate biannually has agreed to increase to \$30 an hour. From a theoretical standpoint, setting up a wage floor would upset the balance of the labour market by forcing some low skill workers to be laid off.

Nevertheless, the government estimated that 273800 grassroot workers would benefit from the law and could sustain a basic level of living by avoiding from being underpaid. After about two years since the law has passed, however, it seems that reports about employers trying to cut the fringe benefits of employees were not uncommon and the actual effect and repercussion of minimum wage on the labour market is yet to be unravelled. In the following essay, I will examine the implementation of minimum wage law with regard to its effectiveness in eradicating poverty in Hong Kong.

In order to assess the effectiveness of minimum wage, the first indicator is changes in monthly income of the lower income groups when compared with higher income groups in the lower half year of 2011. If we divide the whole population equally into ten decile groups with the first decile group being the poorest 10% of the people and the tenth decile group being the wealthiest 10%, it was found that in the first three decile groups all experience increase in monthly income ranging from 6.9% to 9.3%, while the last three decile groups experience either no change or negative growth in their monthly income (HKCSS, 2011).

However, looking at income alone would not be a comprehensive assessment of the effect of minimum wage law given that the economic began to boom around the time minimum wage was implemented.

Therefore, a much more reliable assessment would be to compare the living standards of low income households before and after the minimum wage came into force. A study commissioned by Oxfam Hong Kong adopted a two-stage stratified surveys that interview impoverished households with at least one family member receiving minimum wage and compare their livelihood from March 2011 to January 2012.

In the following paragraphs, findings from this study will be further analysed. In terms of monthly income, the minimum wage law has indeed increase the nominal household income. About 70% of interviewees, representing 131125 families reported an increase in household income after the introduction of minimum wage. Moreover, 72. 6% of them also reported a rise in individual workers' income. In spite of an increase in monthly income and in fact, hourly income as well, working hours of workers decreased.

The average hourly wage of respondents who stayed in the same job before and after implementation of minimum wage increased, 56. 8% of them even receive an hourly wage that exceeded \$28. However, the same group of people who remain in the same job also experience an average cut of about 13. 9 working hours. This reduction of working hour is more often than not, at the expense of the workers' benefit such as cancelling paid lunch hour or meal break and no overtime payment and so on. 46. % of respondents complained that the previously paid rest days were cancelled since the enforcement of minimum wage law. Taking into account of the loss of paid

rest days as well as other fringe benefits, coupled with the reduction in working hours, over half of the respondents, 55.8% of them experienced a drop in individual income despite the apparent increase in nominal monthly income. In the paragraph above concerning CSSA recipients, it was briefly mentioned that they treat social assistance as their last resort to mitigate their financial situation.

In fact, most of them felt “perceivable prejudice” against them. The introduction of minimum wage has a wide application, but it affects most significantly low-income jobs that CSSA recipients crave. About half of the respondents receiving CSSA in the Oxfam study affirm the effectiveness of wage floor as an impetus to quit receiving social assistance. This in brief, could address the need of CSSA recipients to self-reliance and eliminate the stigmatization or label that they feel attached to them by re-entering the job market.

Nonetheless, increase in income to a certain extent does not mean or signify poverty alleviation. The most pivotal finding in the Oxfam study is that it reveals 40.5% of households still live in deprivation despite the minimum wage law. This is because they define “deprivation” as the inability to afford at least three items that are dubbed essential by most Hong Kong residents including dental check-ups, leisure activities, afford to go to private clinics when sick and tea house and so on.

According to Townsend (1979), “a person is considered to be in poverty if he or she does not have enough resources to enable him or her to participate in normal activities commonly engaged by ordinary members in the community

and therefore cannot become fully integrated into the mainstream of society. " Therefore, when 40. 5% of respondents, representing 531354 households are still deprived of a chance to engage in social activities simply due to the fact that they still could not afford the items they need highlighted just how ineffective minimum wage legislation has been in eradicating poverty.

In conclusion, lifting people out of poverty is a difficult problem that could not be solved by any social policy alone, let alone the many flaws and limitations that are embedded in social policies. However, it is only through identifying the imperfection in social welfare policies could we make improvement on them and hopefully attain the final goal of eradicating poverty at the end. Reference list: Hong Kong Council of Social Service, The Statistic review of the Low Income Household in Hong Kong, 2011. w. hkcss. org. hk/index_e. asp Labour Department (2011). Statutory Minimum Wage: Reference Guidelines for Employers and Employees. Legislative Council (2012). Before and After the Statutory Minimum Wage Ordinance in Hong Kong: Survey of Low-income workers and their Families. Oxfam Hong Kong and Centre for Social Policy Studies, Department of Applied Social Sciences, Hong Kong Polytechnic University (2007). Perception and Utilization of CSSA: a Study on the Views of the Public and the Lower Income people.

Social Welfare Department (2012), Comprehensive Social Assistance Scheme, retrieved from: http://www.swd.gov.hk/en/index/site_pubsvc/page_socsecu/sub_comprehens/

Tsoi Kcon-wah , " Poverty Eradication and Social Security in Hong kong", in Advances in Social welfare in Hong Kong, ed. ,) by D. T. L. Shek, 2002, Chapter 9. World Bank

(2011), Gini Index, retrieved from: <http://data.worldbank.org/indicator/SI>.

POV. GINI