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MANDATORY OCCUPATIONAL RETIREMENT SAVINGS: TOWARDS A PROGRAM DESIGN AGENDA FOR HONG KONG

by

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The Patten administration has been lurching around in recent years searching for a community consensus to legitimate reform of Hong Kong's aged income support system. It seems to consider that the existing system, which combines social assistance (means-tested age pensions and benefits) with social allowances (universal benefits to categories of the aged population) (Dixon & Chow, 1992), will be unable, alone, to meet the income-security needs of the elderly in Hong Kong after 1997. The reason for this concern can only be speculated upon, but perhaps it reflects a belief, or indeed an expectation, that the future Hong Kong Special Administrative Region government might not give aged income support the priority needed to protect the basic living standards of Hong Kong's aged population, given the almost inevitable increase in government expenditure on the aged that will result from Hong Kong's ageing population in the years to come.

The dual purpose of this paper is:

- to provide a context for the Patten administration's latest, and perhaps its last, aged income-support system reform prescription in terms of possible policy goals, the broad spectrum of income-support strategies available, and the internationally-recognised minimum standards for social security programs; and

- to set out a specific program design agenda related to program coverage, withdrawal contingencies, program financing and program administration that the Patten administration needs to address when developing its latest proposed aged income-support program.

AGED INCOME-SUPPORT REFORM

Under the rubric of income support for the aged comes a wide variety of mandatory public measures that provide cash payments, and perhaps in-kind benefits, in the event of an individual's earning power permanently ceasing due to retirement or the attainment of a designated age (Dixon, 1986). These public measures (or programs) can be designed to meet any of many policy goals.
Aged Income-Support Policy Goals

There are a wide variety of sometimes conflicting aged income-support goals that might be sought by a government seeking to introduce an aged income-support program (Dixon. 1994), including:

- to ameliorate poverty amongst the existing aged;
- to prevent poverty amongst the aged in the future;
- to achieve a specific form of income redistribution, such as:
  - from employers to their employees upon retirement;
  - from higher income groups to the aged in poverty;
  - from current employees to the current aged; or
  - from current employees to themselves at retirement; and
- to minimise (or maximise) the current or future cost burden of aged income support on:
  - government;
  - employers; or
  - employees.

The social norms that infiltrate and mould a society's perceptions of what constitutes the appropriate set of goals for its aged income support system are the result of an accumulation of preferences generated by a people as they shape their specific society. The dominant set of values that determine how a society views aged income-support is a crucial factor in the determining the broad contours of the building blocks that the social security technocrats sculpt and adorn to construct their systems.

Aged Income-Support Models

A government seeking to design an aged income-support program to achieve specific policy goals in the context of an existing system of means-tested and universal-categorical age pensions and benefits can eclectically draw upon the features of three major income-support models: mandatory retirement insurance (social insurance) or mandatory occupational
retirement savings (national provident funds) and tax-minimising or tax-deferring voluntary retirement benefit programs.

**Mandatory Retirement Insurance.** This is an employment-related approach whereby benefit eligibility is usually based directly or indirectly on satisfying either a minimum covered employment period or a minimum contribution period. The benefits provided upon retirement, or after the attainment of a designated age, are usually periodic cash pensions related to current or past earning or to past contributions paid, although uniform flat-rate pensions and lump sum benefits can be paid. These benefits are financed entirely, or in part, by specific mandatory contributions (generally specified as a percentage of earnings) paid by participating employers and their covered employees usually to a publicly-administered fund, with, perhaps, a government subsidy, although privately-administered pension funds are not unknown (Ryser, 1992; Santamaria, 1992).

**Mandatory Occupational Retirement Savings.** Under this employment-related approach participating employees and their covered employers must pay regular contributions to a publicly-administered provident fund, which are credited to a separate account maintained for each covered employee. The balance in those accounts attracts interest and is usually payable in a lump sum upon retirement, the attainment of a designated age, or some other designated event (such as death or emigration), although interim withdrawal right, borrowing rights, periodic disbursements and even annuities can be accommodated.

**Voluntary Retirement Benefit.** Under this approach, employers, employees and individuals can be induced into a variety of voluntary retirement benefit programs by making them tax-minimising or tax-deferring mechanisms. There are two broad program categories. The first contains voluntary retirement insurance programs, which usually take the form of either private occupational superannuation (usually involving both employer and employee contributions and pension and/or lump-sum payments) or individual superannuation policies with insurance companies (usually involving lump-sum and/or pension payments). The second category contains voluntary retirement savings programs, which usually take the form of private occupational provident funds (usually involving both employer and employee contributions and lump-sum payments), individual retirement savings account with financial institutions, or retirement savings bonds.

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The Patten Administration’s Search for a Suitable Supplementary Aged Income-Support Program

The policy development process that the Patten administration began in the early 1990s, in the hope of building a community consensus about the appropriate form that a supplementary aged income-support program should take, has been characterised by ill-defined policy goals and by the sequential proffering of alternative inadequately-specified income-support programs. Although there has been a conspicuous lack of well-defined policy goals, the Patten administration would seem to be shifting away from the long-standing Hong Kong policy goal of only seeking to ameliorate modestly aged poverty (with minimal vertical income-redistributive consequences and at the government’s expense) towards embracing the goal of preventing, albeit in a modest way, the occurrence of such poverty some time long into the future (with minimal inter-temporal vertical income-redistributive consequences and not at the government’s expense). The willingness of the Patten administration to articulate only generic policy strategies (shifting from a privately-administered provident fund system to a pay-as-you-go social insurance system, and virtually back again) without specifying all the detailed program design features has not allowed a complete analysis of these various income-support strategies to be undertaken. This applies to the latest, and perhaps last, policy prescription: a mandatory occupational retirement savings program (euphemistically called a Mandatory Provident Fund system).

MANDATORY OCCUPATIONAL RETIREMENT SAVINGS:
AN INADEQUATE AGED INCOME SUPPORT STRATEGY

Envisioned by the Patten administration is an employment-related, private-sector administered, mandatory occupational retirement saving program, which would operate in tandem with Hong Kong’s existing aged income-support system (Willis, 1995). It would mandate most employees under the aged of 65 to contribute probably five per cent of their salaries, with matching employer contributions, subject to a (yet to be specified) salary floor and ceiling, to registered private provident funds under contract to their employers. There would be requirements for preservation and portability until these employees reach retirement age (presumably 65 years of age) except in the event of death, total disability and permanent departure from Hong Kong. A “residual pool scheme” would be established to ensure that coverage is available to those employees whose coverage is deemed to
be an unprofitable undertaking for registered private provident funds. These contributions, with accumulated interest less administrative fees, would be paid to covered employees upon their attainment of a designated retirement age.

Program administration would be undertaken by the designated registered private provident funds, subject to a regulatory regime that would, at least, require the private provident fund industry to accept responsibility collectively for any financial losses incurred by a particular private provident fund as a result of theft, fraud or some other breach of the law by an employee of that fund.

The policy prescription being offered by the Patten administration presumes that acceptable aged income support can be provided by means of mandatory savings without risk-pooling. In terms of the International Labour Office's (ILO's) Social Security (Minimum Standard) Convention, 1952, which provides a long-standing, internationally accepted set of conservative benchmarks for the design of adequate social security programs in both developing and developed countries, mandatory occupational retirement savings programs provide inadequate aged income support (Dixon, 1982, 1985, 1986, 1987, 1989, 1990 & 1993; Dixon & Chow, 1992).

Lump Sum Benefits

The 1952 ILO Convention endorses only the use of periodic payments, expressed as either a percentage of a beneficiary's previous earnings, for a particular period of time (articles 63 and 64) or an income-tested flat-rate "sufficient to maintain the family of the beneficiary in health and decency" (article 65) to meet social security needs. The provision of lump-sum benefits is thus an inferior form of social security payment because the payments are not determined in accordance with social security needs, rather they are the product of past savings. Because mandatory occupational retirement savings programs are unable to ensure that their beneficiaries use their lump-sum payments to provide for themselves a future source of income, they cannot guarantee that their beneficiaries do not quickly become impoverished, as inflation eats away at their means of support. Hence the ability of mandatory occupational retirement savings programs to protect covered employees in the event of the loss of their earning power after retirement depends on the efficacy of the lump-sum payment. The extent to which such payments can provide adequate aged income support depends
on the level of accumulated savings available for final withdrawal, the uses to which that savings are put, and the rate of inflation.

The Problem of Inadequate Savings. This is one of the major dilemmas confronting mandatory occupational retirement savings programs seeking to provide adequate aged income support. The accumulated savings available for final withdrawal would be greater:

- the higher the contribution rates payable;
- the higher the income to which that rate applies;
- the longer the contribution period (or the shorter the periods of unemployment or uncovered employment);
- the higher the interest accrued on that savings;
- the smaller the administrative charges deducted from that savings;
- the smaller proportion of outstanding (uncollected) contributions; and
- the smaller any interim withdrawals (or unrepaid borrowings) permitted from that savings.

One particular issue need to be highlighted in this context. The continuous contribution period that must elapse before covered employees can accumulate adequate savings to finance their retirement is some 25 years, on the rule-of-thumb basis that with a 10 per cent combined employer-employee contribution rate it takes at least five years to accumulate savings equivalent to one year's salary and that the target income-replacement rate is 25 percent.

The Dispersal of Lump-Sum Payments. The way in which lump-sum payments are spent determines the extent to which this form of benefit provides adequate aged income support. The principle justification for a lump-sum payment is that it provides the beneficiary with the wherewithal to acquire income-generating assets, so as to avoid subsequent recourse to any form of social assistance. This does not, however, guarantee that the accumulated savings are used to this end.

Inflation. The effectiveness of mandatory occupational retirement savings programs providing lump-sum payments as a means of providing adequate
aged income support is affected by inflation in two ways. First, any inflation occurring over the contribution period reduces the real value of the accumulated savings unless the net interest rate (that is, nominal interest rate less administrative charges) earned exceeds the inflation rate over that period. Second, any inflation occurring after the final lump-sum payment has been made reduces the real value of the benefits generated by its dispersal, which provides a clear incentive to divert this payment to current rather than to future consumption. In both situations, inflation diminishes the capacity of lump-sum payments to provide adequate aged income support.

Employee Coverage

The 1952 ILO's Convention established three alternative minimum coverage standards: not less than 20 per cent of all residents; all residents with means below a particular limit; or not less than 50 per cent of all employees in industrial work places employing 20 persons or more. The envisioned mandatory occupational retirement savings program for Hong Kong will probably meet the third requirements within a reasonable period of time, given that the existing voluntary private provident funds have achieved a coverage of 30 per cent of the workforce (Willis, 1995). It must be recognised, however, that mandatory occupational retirement savings programs provide the most generous aged income support to those covered employees who have the highest incomes and who have not experienced periods of either unemployment, uncovered employment or absence from the workforce. Unquestionably, the less fortunate receive less income support, which is a product of the lack of risk-pooling.

Distribution of Costs

The 1952 ILO Convention requires that the costs of social security protection be met by means of contributions or taxes "in a manner of which avoid hardship to persons of small means" (article 67). The specification of a contribution floor under the envisioned mandatory occupational retirement savings program for Hong Kong would reduce the financial hardship caused by payment of the designated employee contributions by low-income covered employees. Yet it is this very group that is vulnerable and most likely to fall into the social assistance safety net.
INCOME-SUPPORT PROGRAM DESIGN PARAMETERS

In proffering a mandatory occupational retirement savings program the Patten administration is following in the path of Australia, Chile and, more recently, Mexico by endeavouring to create a mandatory occupational retirement benefit program administered by the private sector (McCallum, 1988; Borzutzky, 1990; Ryser, 1992; Santamaria, 1992). The Patten administration’s aspiration is, however, to build upon, through integration, the coverage achieved by extant voluntary occupational provident funds. The alternative might be to establish a new mandatory occupational retirement savings program that would fill the coverage gap left by the voluntary occupational provident funds. This would mean that members of existing private provident funds could be exempted from the mandatory program’s coverage, although they could be given the right to select into it if they consider its benefits to be superior to those offered by their own voluntary occupational provident fund. The contracting out of the mandatory program’s administration to one or more private occupational provident funds could still take place. This could solve thorny policy and legal issues in relation to existing contractual obligations that might otherwise have implications for the statutory imposition of any minimum program requirements and perhaps for instituting portability between constituent private provident funds.

What follows is an attempt to articulate a design agenda for a mandatory occupational retirement savings program. This has been done on the basis that making mandatory membership of what were previously voluntary occupational provident funds places a responsibility on government to ensure that its aged income support objectives (what ever they may be) are cost-effectively achieved by the articulation of minimum program requirement that would be common to all constituent private provident funds. This is not to suggest, however, that diversity is not important. Rather, it is a reflection on the fact that the Patten administration, in the Hong Kong tradition, is creating a profitable regulated market for the private sector to exploit, thus necessitating the need for a regulatory regime that ensures that public policy goals and private profit goals do not become incongruous or even incompatible.

Program Coverage

The program design questions relating to coverage that need to be addressed are:
• Should all industries be covered? If not, which industries should be exempt from coverage and upon what basis should any such exemptions be granted (for example, intensity of international competition)?

• Should all employers be covered? If not, which type of employers should be exempt from coverage and upon what basis should any such exemptions be granted (for example, those with less than five employees)?

• Should all occupational groups be covered? If not, which occupational groups should be exempt from coverage and upon what basis should any such exemptions be granted (for example, professionals (such as lawyers and medical practitioners), civil servants and domestic servants)?

• Should all employees be covered? If not, which type of employees should be exempt from coverage and upon what basis should any such exemptions be granted (for example, casual employees, junior employees, apprentices, casual employees, temporary employees, fixed-period contract employees with no right of abode in Hong Kong, employees in equivalent private plans administered outside Hong Kong, employees earning less than a specified minimum income (as distinct from the specification of a contribution floor), and employees earning more than a specified maximum income (as distinct from the specification of a contribution ceiling))?  

• Should the self-employed be required to participate?
  
  • If yes, what rate of contribution should they pay?

  • If not, should voluntary participation be permitted? Should voluntary participation be open to any person who is not required to contribute?

• Should coverage extend to Hong Kong residents with a right of abode who are employed outside Hong Kong by Hong Kong-based employers?

The responses to these questions will determine the degree of program coverage achieved. This will determine the extent to which the social
assistance system will be relieved of a financial burden in the future. Not addressed, of course, is the fundamental question of what aged income support should be available to those outside covered employment.

Withdrawal Contingencies

The program design questions relating to the contingencies that will permit the withdrawal of accumulated net savings are:

- What should be the designated eligibility age? Should it be the same for men and women? If not, what should the differential be?

- Should resignation or termination of covered employment be a withdrawal contingency?

- If yes, should the withdrawn savings be subject to any tax liability?

- If yes, at what rate(s)? Should tax deferral until retirement from any employment, or full or partial tax exemption, be granted if the withdrawn savings are rolled over into a retirement savings account (that is, an account with a financial institution that is not accessible until the attainment of designated age without the payment of the tax liability due) or used to purchase a retirement annuity?

- If not, should the threat of taxation be used to encourage the rolling over of the withdrawn funds into a retirement savings account or the purchase of a retirement annuity?

- Should retirement from any employment at the designated age be a withdrawal eligibility condition?

- If yes, should early retirement be permitted for any employees? If yes, how many years earlier? In which industries should covered employees be permitted to retire early (for example, dangerous or hazardous industries)?
• If not, should the withdrawn savings be subject to any tax liability?

• If yes, at what rate(s)? Should tax deferral until retirement from any employment, or full or partial tax exemption, be granted if the withdrawn savings are rolled over into a retirement savings account or used to purchase a retirement annuity?

• If not, should the threat of taxation be used to encourage the rolling over of the withdrawn funds into a retirement savings account or the purchase of a retirement annuity?

• Should death be a withdrawal contingency?

• If yes, who should be permitted to be the beneficiary? Any individual nominated by a covered employees? The covered employees’:
  • legal spouses and dependant children only?
  • de facto spouses and their dependant children?
  • dependant siblings?
  • dependant parents?
  • other dependant relatives?
  • other dependant individuals (for example, for individuals in long-standing homosexual relationships)? If yes, should there be a consent provision?

Should the distribution of the accumulated savings amongst designated or designated beneficiaries be determined by statute?

Should the withdrawn savings be subject to any tax liability? If yes, at what rate(s)?

• If not, how should the accumulated savings be distributed?
• Should the complete or partial withdrawal of accumulated savings be permitted in the event of:
  • permanent emigration by residents with the right of abode in Hong Kong? If yes, how is permanent emigration established?
  • permanent departure by fixed-period contract employees with no right of abode in Hong Kong?
  • permanent total or partial incapacity or invalidity (beyond a specified degree) at any age or after a designated age?
  • unemployment of more than a specified minimum period or after a designated age?
  • permanent retirement from covered employment at any age or after a specified minimum period of contribution?
  • marriage and permanent retirement from covered employment by women?

If yes, should the withdrawn savings in any of these circumstances be subject to any tax liability? If yes, at what rate(s)?

• Should borrowing up to a specified proportion of the accumulated savings, with or without the payment of interest, be permitted for, say:
  • home purchase?
  • social obligations (such as marriages and funerals)?
  • children’s education?
  • medical and hospital care?

The responses to these questions will determine the extent to which the mandatory occupational retirement savings program will provide even modest material support for retired covered employees. The dilemma is that since contributors are able to identify their mandatory savings they are
inclined to claim proprietary rights over them. This brings into focus the libertarian principle that since individuals should be considered the best judges of their well being, they should be able to use, perhaps within limits, “their” mandatory savings to improve their immediate “quality of life”, which is a principle that has been accepted by all national provident funds (Dixon, 1993).

Not addressed, of course is whether and how society should provide income support to those mandatory occupational retirement savings program beneficiaries who choose not to use the lump-sum payment for the income-support purposes they were intended:

- Should lump-sum payment beneficiaries be designated as ineligible for social assistance?
  - If yes, should ineligibility apply only if their withdrawn savings are above a designated minimum level? For how long, or to what age, should they remain ineligible?
  - If not, how should the withdrawal benefits, especially any non-income-earning assets purchased from those proceeds, be treated under the social assistance means test? Should such beneficiaries be prohibited from divesting themselves of any income and assets they have gained from the withdrawn savings so as to qualify for social assistance?
- Should it be mandatory for all or part of a withdrawal benefit resulting from a covered employee’s death or attainment of a designated age be used to purchase of an acceptable annuity?

The responses to these questions will determine the extent to which the social assistance system will be relieved of a financial burden in the future.

**Program Financing**

The program design questions relating to the method of financing that need to be addressed are:

- Should contribution rates for employees and employers be identical? If not, what should the differential be?
• Should participating employers be able to make additional voluntary contributions? If yes, upon what basis? Regular supplementary contributions? *Ad hoc* contributions?

• Should covered employees be able to make additional voluntary contributions? If yes, upon what basis? Regular supplementary contributions? *Ad hoc* contributions?

• Should a contribution floor be specified, as distinct from the exemption of lower-income employees from coverage? If yes, what should the contribution floor be? Should employers alone be required to make contributions with respect to covered employees whose contribution liability falls below the contribution floor?

• Should a contribution ceiling be specified, as distinct from the exemption of higher-income employees from coverage? If yes, what should the contribution ceiling be?

• How should "income" be defined for the purposes of calculating the contribution liability? Should it only include earned cash income? Should it be gross taxable income (before permitted deductions) or net taxable income? Should it include cash bonus, overtime or other special and one-off payments? Should additional employment benefits (such as allowances for housing, travel, education and clothing) be included?

• Should employees with multiple jobs in covered employment be subject to multiple contribution liabilities? If not, how is the contribution liability determined?

• Should government make a contribution:
  • as an employer?
  • to augment the contributions made by (or on behalf of) employees below a designated contribution floor?
  • towards administrative costs?

• Should government act as a financial guarantor of the program? If yes, how should the investment behaviour of
the constituent private provident funds be regulated to ensure that they do not increase the risk-yield profile of their investments in the face their own reduced cost of risk?

- Should basic employers' contributions (and/or any permitted supplementary contributions) be deductible from taxable income in the year paid or treated as a tax credit?

- Should the employees' contribution (and/or any permitted supplementary contributions) be deductible from taxable income in the year paid or treated as a tax credit?

- Should constituent private provident funds be subject to income and other tax liabilities?

The responses to these questions will determine in part the complex economic impact that mandatory occupational retirement savings programs have on their host economies.

Mandatory occupational retirement savings programs certainly mobilise savings, although they will only increase savings if the mandatory savings does not induce a corresponding reduction in voluntary savings. The growth in revenue (contributions plus investment and another income) greatly exceed the growth in expenditures (benefits plus administrative expenses) thus ensuring an accumulation of investment funds by the constituent private provident funds. This is inevitable because under a mandatory occupational retirement savings programs contributions are collected for a considerable period before significant benefits payments are made. Of course the extent to which interim withdrawals and borrowing rights are permitted will diminish the rate of which these investment funds are accumulated. The manner in which they are used is determined by any constraints specified in its enabling statute, by the institutional arrangements surrounding the investment decision-making process, and by the prevailing political attitudes towards the appropriate socio-economic role of the mandatory occupational retirement savings program.

The distributional impact of mandatory occupational retirement savings programs is extremely difficult to determine, but two issues need to be highlighted. First, with a progressive income tax rate structure, the distributional impact of tax-deductible employee contributions is regressive. (The degree of regressivity is, of course, restricted when a contribution ceilings is specified.) Second, because the investment of the accumulated
savings by constituent private provident funds has effects throughout the economy in which it operates, it has a bewilderingly complex impact on the distributions of income. There is no \textit{a priori} way of knowing whether this impact is generally progressive, neutral or regressive, or even which segments of the community are the principal beneficiaries.

Program Administration

The program design questions relating to the program administration that need to be addressed are:

- What legal form should the constituent private provident funds take? Should they be legal entities created under:
  - the enabling statute (such as statutory joint ventures between the government and one or more private provident funds)?
  - the prevailing corporations statute?
  - another relevant statutes (such as that covering the activities of life insurance companies)?

- Should there be any statutory constraints on entry into the private provident fund industry (such as the payment of a bond, acceptable financial and governance structures, or an acceptable ownership structure)?

- Should there be any constraints on the institutional management (for example, covered employee representation on the governing boards of constituent private provident funds)?

- Should there be mandatory covered employee participation in contribution, benefit and investment policy decision making?

- What, if any, financial management constraints should be imposed upon constituent private provident funds (for example, mandatory investments (such as government securities), prohibited investments (such as commodity futures, derivatives, investments outside Hong Kong) and other prohibited financial transactions (such as loans to
employees or loans to parent, subsidiary or associated corporate entities)?

• Should covered employees' have their accumulated savings held in separate trust accounts in their own individual names?

• Should there be a publicly-administered appeal process to adjudicate contribution liability and payment disputes between the constituent private provident funds and their covered employees and/or their participating employers? If not, does existing statute law provide sufficient remedies to protect the rights of covered employees and participating employers in the event of such disputes?

• What be specified for the purpose of publicly assessing the performance of constituent private provident funds?

• What should be the statutory right-of-access by covered employees to information stored by the constituent private provident funds?

• What confidentiality of information should be guaranteed by statute?

• What should be the statutory auditing requirements?

• What statutory public accountability disclosure (reporting) requirements should apply to the constituent private provident funds (such as, disclosure of administrative fees and charges, uncollected contributions, investment portfolio details, rate of return achieved on investments, investments in or loans to parent, subsidiary or associated companies, and the average, minimum and maximum time taken to process withdrawal applications)?

• What statutory records should constituent private provident funds be obliged to keep and for how long (for example, covered employee contribution records)?

• Should a benchmark administrative cost schedule be specified in the enabling statute for the purpose of publicly
assessing the performance of constituent private provident funds?

- What should be the statutory right-of-access by covered employees to information stored by the constituent private provident funds?

- What confidentiality of information should be guaranteed by statute?

- What should be the statutory auditing requirements?

- What statutory sanctions, at the corporate and responsible-individual level, should government have in the event of:
  - the management of a constituent private provident fund acting contrary to the interests of contributing employees (such as making false or deceptive statements, failing to disclosure relevant information or destroying relevant documents)?
  - an employee of a constituent private provident fund causing a financial loss by acting illegally (such as engaging in theft or fraud)?

- What should the statutory winding-up provisions be for constituent private provident funds that are unable to meet their financial obligations?

- What powers should be vested in the public regulatory body with respect to:
  - accessing contribution and benefit records, and policy and administration files held by constituent private provident funds?
  - undertaking periodic reviews of the management and operation of constituent private provident funds?
  - accessing data from constituent private provident funds for the purpose conducting studies and surveys?
The response to these questions will determine, in effect, the level of public trust and confidence in the envisioned mandatory occupational retirement savings program.

CONCLUSION

Mandatory occupational retirement savings programs, like that envisioned by the Patten administration, seek to provide retired covered employees with income support in the form of the withdrawal of their accumulated net savings upon attaining a designated retirement age. Their capacity to provide adequate income support to the aged is generally restricted, first, by the relatively slow rate of savings accumulation (in terms of potential income replacement); second, by their inability to ensure that lump-sum payments are used by their beneficiaries to provide long-term income support; and finally, by their inability to provide their beneficiaries with a hedge against inflation. The fundamental dilemma is thus that adequate aged income support cannot be achieved on the basis of mandatory savings alone.

The additional challenges facing the Patten administration's latest aged income support reform strategy, which in effect creates a profitable regulated market for the private sector to exploit, relate to the need to develop a regulatory regime that ensures that its aged income support policy goals (whatever they may be) do not become subservient to the profit goals of the private provident funds. This requires the articulation of a set of desired mandatory program features (embracing coverage, withdrawal contingencies, contributions) and administrative arrangements (embracing, legal entity issues, institutional governance issues, reporting and disclosure issues, and probity issues).

The Patten administration will also have to address how it intends to harmonise the constituent parts of Hong Kong's social security system so as to avoid exploitation of the social assistance system by avaricious mandatory savings beneficiaries, perhaps to the disadvantage of those who depend upon social assistance because they are either not covered or inadequately protected by the mandatory occupational retirement savings program.
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