



Title	The development of universal retirement policy in Hong Kong : a study of political and administrative dynamics
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Citation	Cheung, W. C., Lam, Y. D., Ma, K. J., Chiu, H. M., Luk, C. J.. (2015). The development of universal retirement policy in Hong Kong : a study of political and administrative dynamics. (Thesis). University of Hong Kong, Pokfulam, Hong Kong SAR.
Issued Date	2015
URL	http://hdl.handle.net/10722/246872
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The Development of Universal Retirement Policy in Hong Kong:

A Study of Political and Administrative Dynamics

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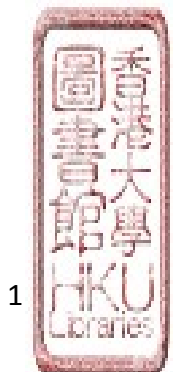
Capstone project in partial fulfilment of the requirements

Of the Master of Public Administration

Department of Politics and Public Administration

The University of Hong Kong

2015



Declaration

We declare that this Capstone Project Report, entitled “The Development of Universal Retirement Policy in Hong Kong: A Study of Political and Administrative Dynamics”, represents our own work, except where due acknowledgement is made, and that it has not been previously included in a thesis, dissertation or report submitted to this University or any other institution for a degree, diploma or other qualification.

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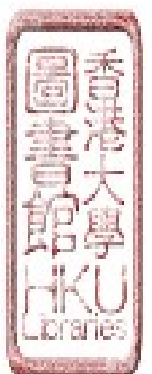
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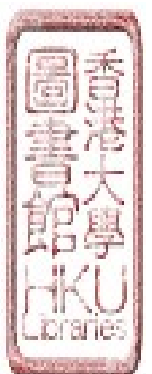
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Acknowledgement

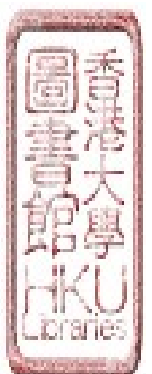
We would like to express our sincere gratitude and heartfelt thanks to Professor Ian Thynne, our capstone project supervisor, for his valuable guidance, support and coaching throughout our two years deep research on this capstone project. Professor Thynne has been providing us with a lot of insightful advice on the approach in conducting the research and how to structure our empirical analysis. We would also like to take this opportunity to thank Prof. Eliza Lee, the then Director of the Master of Public Administration Programme and Dr. Peter Cheung, the Director of the Master of Public Administration Programme for their professional advice and guidance throughout the programme. Also, we would like to salute to all other lecturers and staff members of the Department of Politics and Public Administration, as well as our families, classmates, and colleagues for their valuable support over the past two years.



Abstract

Hong Kong has been facing the challenge of an ageing population as many cosmopolitan cities around the world have had faced. Figures from the Hong Kong Government's Census and Statistics Department (2013) reflected the seriousness of the problem, the proportion of the population aged 65 and over is projected to rise significantly, from 7% in 1981 to 30% in 2041. In the other words, while Hong Kong people will live longer in the coming future, there will be a higher percentage of retired people in the Hong Kong population. The result of this changes is reflecting that the future working population needs to to support a larger number of retirees for a longer period of time.

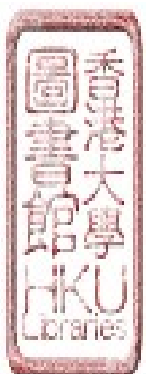
Hong Kong is not alone to face the challenges generated from the ageing population. Cities, especially those from developed countries around the world, have been formulating, developing or implementing different systems or policies to tackle the ageing problem. From the experience of other cities, given the limited public resources, there are different approaches to provide various or increasing resources to satisfy the retirement needs of this group of ageing population. However, this is not



an easy task and there is no experience from the modern civilisation to address this challenge with a viable and sustainable system, within a effective, possible and comprehensive institutional framework, that could properly support a growing large elderly population within a very limited public resources.

In this context, this project looks into the development of universal retirement protection policy in Hong Kong from the perspective of political and administrative dynamics. An analytical framework is established to structure, guide and inform the analysis of the issue of old age protection. It comprises the integration of Knill and Tosun's (2012) types of governance, Kingdon's (1984) three streams model, May's (1986, 2005) ideas on political feasibility, McDonnell & Elmore's (1987) categorisation of policy tools, and the World Bank's (2015) Five-Pillars approach.

These theories, concepts and related ideas are used to analyse the political and administrative dynamics of the development of retirement policy in Hong Kong and the universal demo-grant proposed by Professor Nelson Wing-sun Chow in 2014. In the recommendations, the



experience of Singapore that formulated and implemented a retirement protection policy is drawn on in providing some thoughts for the future universal retirement policy in Hong Kong.

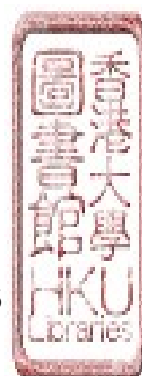


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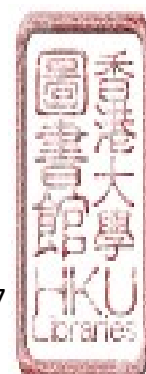
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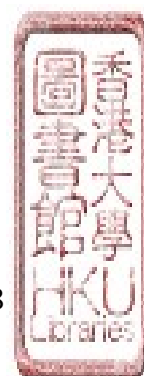
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Abbreviations

CE - Chief Executive of the Hong Kong SAR

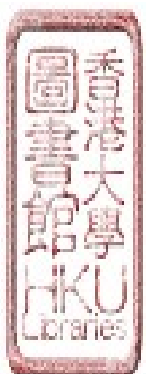
CS - Chief Secretary for Administration of the Hong Kong SAR

CSSA - Comprehensive Social Security Assistance

CPF - Central Provident Fund

MPF - Mandatory Provident Fund

NGO – Non-government organization



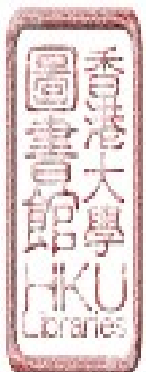
CHAPTER 1: Introduction

Focus, Objectives and Background of the Project

This project addresses the development of universal retirement protection policy in Hong Kong. It focuses on the context in which the retirement protection policies have evolved in the history in Hong Kong and whether the political and administrative aspects could play a dominant role in current and future policy choices.

The objective of this project is to understand political and administrative dynamics among the problem, policy and politics forces of retirement protection policies over the years. The project then analyses the present political and administrative environment and draws insights from Singapore experience to identifies and recommends areas for the government to manipulate political support for its coming policy choices.

After decades of incremental improvements, the society gradually developed from nil retirement protection to adopting a number of retirement protection measures. This included private savings,



Community Social Security Assistance Scheme, different social programs and subsidies and Mandatory Provident Fund (MPF) to support the living of the retired persons and elderly. However, there was still a large number of elderly living in poverty despite all of these measures being adopted.

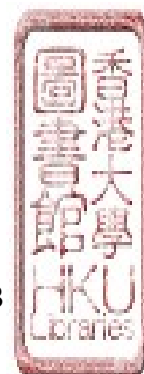
Hong Kong is undergoing a same population transformation like other parts of the world. A longer life expectancy couples with a declining birth rate has caused a rapid aging of population. The problem of aging population means the working population will have a much larger number of retirees to support for a long period of time. It is expected that each retiree will be supported by two working-age adults in 2041 as compared to six working-age adults in 2011 (Mandatory Provident Fund Authority, n.d.). Longer life expectancy, aging population, imperfections of current measures call for redress in order to satisfy unmet needs and respond to new exigencies.

Some policy entrepreneurs had put up universal retirement protection policy to solve elderly poverty problem. This aroused controversy in the society and a consensus has yet been reached. At the same time



increasing blame was observed on the government's ineffectiveness to solve the problem on elderly poverty. Against this background, the Chief Executive had put in his Manifesto to develop on current retirement protection policy.

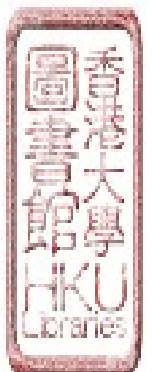
In October 2012, the Chairman of Commission of Poverty, Chief Secretary for Administration Ms LAM CHENG Yuet-ngor, appointed Professor Nelson Chow Wing Sun to research on retirement policy that was suitable for Hong Kong. In August 2014, "A Study on Future Development of Retirement Protection in Hong Kong" was released suggesting the government to use universal demo-grant as the ultimate retirement protection policy in Hong Kong. In one year's time, the government has not yet devised her policy based on this suggestion whilst tasking the Commission of Poverty to do public consultation on retirement protection without specifying the element of 'universal'.



Research Questions and Related Propositions: Theory and Practice

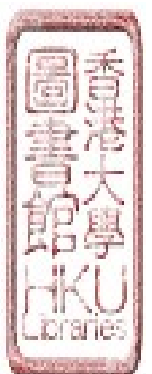
In order to obtain the objective of this project, the following four research questions are addressed:

1. What theories can be drawn on to analyze the problem, policy and political forces in the policy processes concerning retirement protection policies?
2. What are the interdependencies between problem, policy and political forces, including how they are reflected and become dominant in the policy choices of retirement protection?
3. What are the current options – and associated problems, policies and political forces – in the government’s addressing of universal retirement protection?
4. How might the political and administrative dynamic in Hong Kong evolve concerning universal retirement protection policy?



Different theories had emphasized the importance of problem, policy and political forces in policy process. These interdependent forces had driven the agenda setting, policy choices and even policy evaluation of different kind of policies. In the context of retirement protection in Hong Kong, problem, policy and political forces had put the issue onto the government's agenda again and again and influenced the policies chosen in different eras over the history.

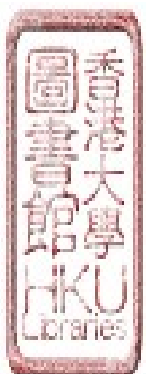
Although significant development has been made in retirement protection over time, the issue is once again in the spotlight at the moment. The old-age poverty problem in Hong Kong and change of the public's mindset on retirement protection, reference to World Bank's (2015) Pension Conceptual Framework and a demo-grant proposal put up by a top academic (Chow 2014) as well as the stances and actions of political actors constitutes the problem, policy and political forces in the current on-going policy process of universal retirement protection.



Overview of the Analytical Framework

This analytical framework developed in Chapter 2 provides a structured way to analyze the problem, policy and political forces in policy process of retirement protection policies over the years and the current environment leading to universal retirement protection policy. This allows the study of political and administrative dynamics on making policy choices.

First, the framework appreciates problem, policy and political forces affect different stages in the policy process in government and governance. Knill and Tosun (2012) discussed on the modes and types of governance which had been evolving in the history of Hong Kong and affected the development of society, policies adopted and the power of political actors. Kingdon's (1984) three stream theory discussed the coupling of problem, policy and political force in agenda setting. The three element were also present in McDonnell & Elmore's (1987) concept that policy choices were determined by problem perceived, resources and constraints that might come from political support or

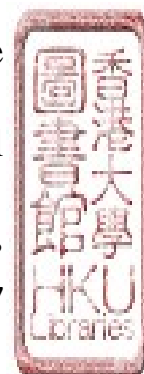


opposition. May's (1986, 2005) discussion on political feasibility elaborated on political forces mentioned by Kingdon (1984) and McDonnell & Elmore (1987) and that policy choices were accepted when legislators support it. Finally, the World Bank's Pension Conceptual Framework (2005) played an important role guiding the Hong Kong Government's policy options and its political support. It also served as an assessment tool to evaluation the coverage of retirement protection by political actors and academics.

Overall, this framework assisted to study how the political and administrative dynamics evolved over the years, how it affect the government formulates and choose the policy for retirement protection, and hence effective to analyse the present political and administrative environment for current development of universal retirement protection.

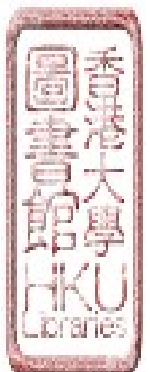
Research Methodology

The research of this project is based primarily on desktop research on the data gathered from the public domain, including website of the Social Welfare Department, website of Mandatory Provident Fund Authority,



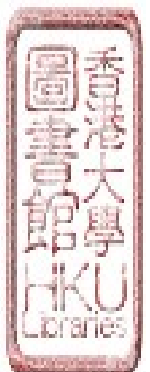
documents prepared by Legislative Council Secretariat, research report by Professor Nelson Chow and his team, newspaper reports and relevant academic studies. In formulating the analytical framework, academic literature of different theories and documents from World Bank were studied. A thorough analysis of information on the historical context of retirement protection development and current situation in the society through different theories had answered the above research questions. The experience of Singapore in developing retirement protection was also looked into for drawing insights.

The methodology adopted in this project is appropriate as this project study and analysis of development of retirement protection over time, so it is important to study extensive publications on relevant legislative documents, newspapers and academic studies that provide detailed information related to the policy process of each retirement protection policy in the past. The same type of publication in recent years also provides background and detailed information on the current options for the government and assists to analyse on associated problem, policy and political forces.



Chapter Outline

This project consists of five chapters, including this introductory chapter illustrates the focus, objectives, background, research questions, overview of analytical framework and research methodology. Following this chapter, Chapter 2 establishes the analytical framework derived from literature review and academic studies and used to structure, guide the discussion in problem, policy, political dynamics around retirement protection development over the years in Chapter 3. The framework also assisted the analysis on political and administrative dynamics of current environment affecting retirement protection in Chapter 4. In Chapter 5, the focus is put on the current option and its associated problems, policies and political forces in the government's addressing of universal retirement protection. Finally, in Chapter 6, taking reference to Singapore as the example, recommendation is made to forecast on how the government can manipulate the political and administrative dynamics to support its policy proposal.

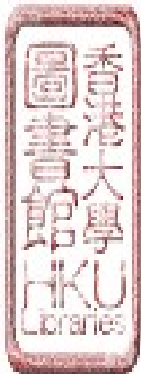
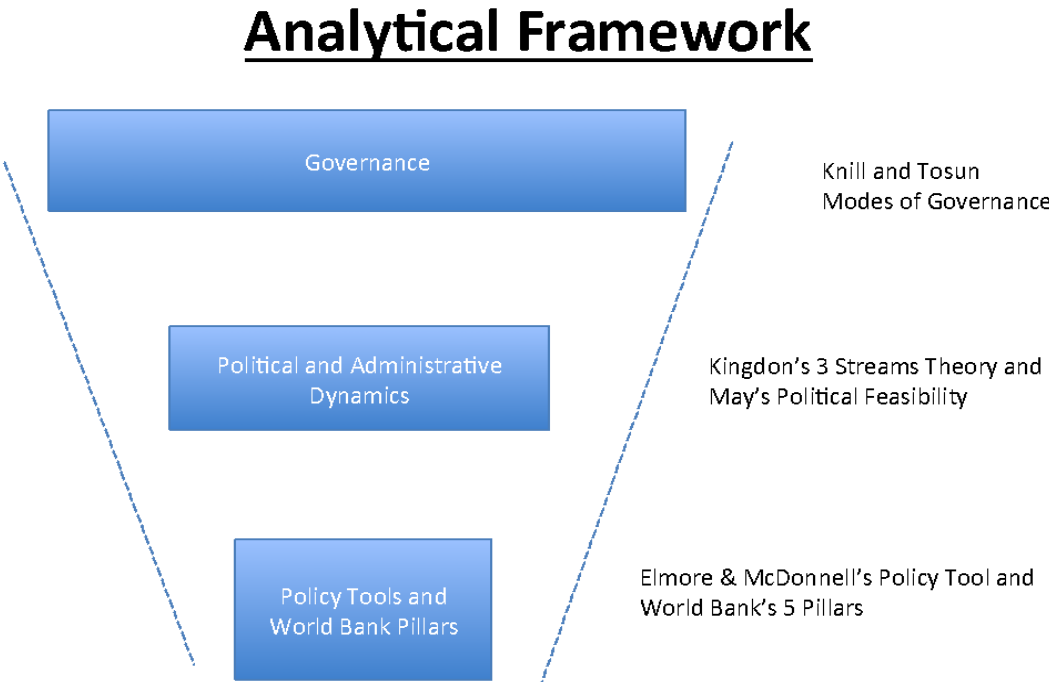


CHAPTER 2: Analytical Framework

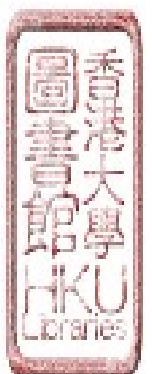
Introduction

This project focuses on the changes political dynamic and how it would affect the policy formulation on the universal retirement policy over the years. As this is a complex issue, a number of theories are drawn in order to provide a comprehensive framework to address the issue. Figure 1 presents the components of the framework.

Figure 1 Components of the Analytical Framework



The framework begins with an appreciation that different modes of governance affect the overall political dynamics in a political system, which in turn affect the formulation and implementation of policies during different time in history. Reference is made to the work of Knill and Tosun (2012) regarding modes and types of governance, along with Kingdon's (1984) three stream theory discussing coupling of problem, policy and political, as well as ideas addressed by May (1986, 2005) concerning political feasibility, McDonnell & Elmore's (1987) discussion of categories of policy tools and how they are chosen and, finally, the World Bank's (2005) Pension Conceptual Framework - 5-pillar model as a method of assessment of retirement protection developments.

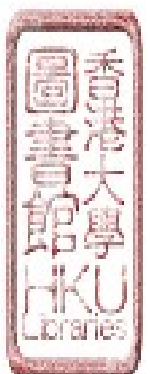


Governance

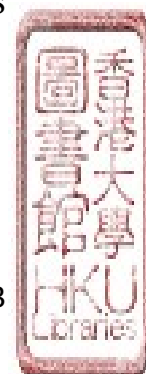
According to Knill and Tosun (2012), “Governance refers to the collective settlement of social affairs in a polity, including a broad range of different modes”. Knill and Tosun (2012) address three governance modes: “hierarchy, markets and networks”, in which four ideal types of governance was further derived from the three modes of governance.

Interventionist governance and regulated self-governance

The hierarchy mode of governance emphasizes the role of formal rules and regulations acting on both public and private sectors. Moreover, it has the ultimate power to control the private sectors and force them to follow the government policy. This asymmetric relationship between public and private sectors showed the paramount importance of government in formulating public policies. A government which a hierarchical Intervention is used in the policy making and implementation would be considered as an execution of Interventionist Governance. Notwithstanding that private sectors also played a small role in certain extent, the overall responsibility for the provision of the

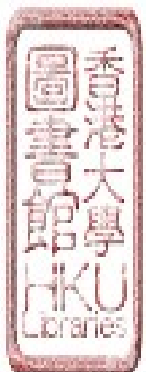


public services and goods are fell on the government. For instance, it would be a kind of command and control strategy in which the government legally defined the rules for every stakeholders of the society (i.e. included private and public sectors) to comply with. In addition to the command and control strategy (Interventionist Governance), a regulated self-governance enables more co-operation between public and private sectors in the process of policy design and execution which in turns included the concept of market types of governance. The market mode of governance is operated under an assumption of “*goods and services are allocated efficiently without intervention by the state*” (Knill and Tosun, 2012). Under this mode of governance, the allocation of resources between individuals and private sectors are based on the market prices. For instance, every individuals will make their own decision on the transaction of certain goods and services with due regard to the consideration on any advantageous for them. As such, regulated self-governance is based on the hierarchical strategies of the government and private sector can only functioning under the shadow of government’s rules and regulations.



Co-operative governance and private self-governance

Under the concept of regulated self-governance, the private sector (market) had played a role in the governance and the importance of the co-operation between market and government has been emphasised. In this regard, the co-operative and private self-governance was introduced which is a kind of network between government and market. The network mode of governance was thought to be a co-operative relationship between public and private sectors in an informal way so as to achieve the policy goal (Knill and Tosun, 2012). Within the policy networks, members are linked to share relevant information and resources about the policy. Members are not only participating in the policy formulation, but also in the policy implementation. By the way, different views and interests are not represented by certain organizations involved in the network policy regime and was internalized within the policy network groups. In the co-operative governance, government body and private sectors played an equal role in the discussion of policies instead of unilaterally bind to the rules and regulations set by the government. Further to co-operative governance, a private self-

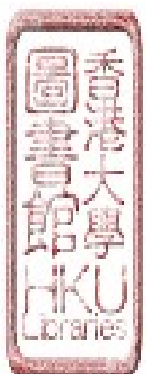


governance would be a rather voluntary policy making process than a rule binding strategy, moreover, the autonomy on the decision making of certain policy would be much higher than that of co-operative governance.

As the government controlled the allocation of public resources, the mode of governance did affect the formulation of different policies and determine the degree of co-operation of government and the private sectors. In addition to four types of governance which would alter the policy window, the actual social problem and policy suggestions and political dynamic of a society would also hindered the opening of policy window which would be mentioned in the coming paragraphs.

Three Streams

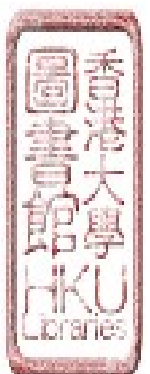
According to Kingdon (1984), agenda setting is the first stage in the policy process and the policy agenda is the list of issues or problems to which government officials pay serious attention. Moving an idea onto or higher up on that agenda involves three processes: problems, proposals, and politics. Kingdon (1984) developed the theory that the timely



confluence of “three streams” – the problem stream, the policy stream, and the political stream – is what creates the momentum necessary to place an issue on the public policy agenda, to move it from the “government agenda” box to the “decision agenda” box, and to lead government finally to change public policy.

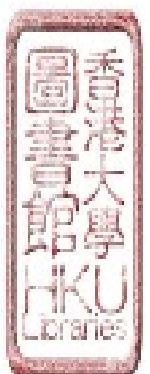
The three streams model presents a set of processes focusing on the agenda setting in the policy process and the processes are a complex set of interactions among different political stakeholders, who have different values, interests, perceptions of the situation and policy preferences, over a fairly long time span (Howlett & Ramesh, 1995).

The three streams – problem stream, policy stream and political stream – represent the necessities of the government policy making process. A policy window opens, the policy problem rises to the top of the policy agenda and a new policy idea is accepted only when the three streams coupled. Problem stream refer to the process of persuading policy decision makers to pay attention to one problem over others. Retirement protection policy has been considered as a problem recognition, as the ageing population is increasing and it will trump other problems. A



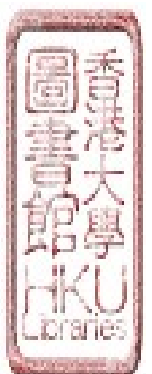
policy issue cannot by itself become a problem until it is deemed to require attention by people with political influence, e.g. legislative councillors, who recognise that it has to be solved. This explains why some social problems like retirement protection problem exist in society for decades, but are only put in the spotlight at some moments. Even when conditions with a perceptual and interpretive element are defined as problems and politicians believe that they should do something about them, the problems may fade away from the agenda if the government feel that they have solved the problems, they have addressed them by administrative decision, or they failed to solve or even address them (Kingdon, 1984: 103-4).

Policy stream represents the process by which policy proposals are generated, debated, revised, and adopted for serious consideration. It is actually a selection process in which a vast amount of possible policy initiatives is short-listed for serious consideration by policy-makers. Political Stream is political factor that influence agendas, such as changes in elected officials, political climate or mood and the voices of advocacy or opposition groups. Independent of the problem and policy stream, the



political stream has its own rules and dynamics. The political stream represents how receptive people perceive certain solutions at particular times.

The abovementioned problem, policy and political streams operate largely independently, although the actors in each can overlap. Successful agenda setting requires that at least two elements come together at a critical time—that is, when a “policy window” opens. The policy window provides the opportunity for advocates of proposals to frame the issues, push attention to their special problems, promote their pet solutions or attach their solutions to the pressing problems (Kingdon, 1984: 174). However, the window is opened unpredictably and does not stay long. The window may close because of participants feeling that they have solved the problem or failing to get action, change of personnel, the focusing events passed, or no available alternative (Kingdon, 1984: 177-8). Thus, advocates of proposals would seize opportunity and rush to take advantage of it when the policy window opens. Problems or politics could structure the governmental agenda by themselves. However, none of the three streams are sufficient to place an

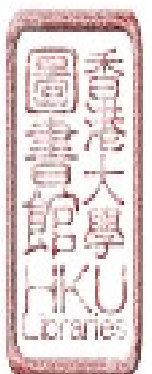


item on the decision agenda firmly by themselves. Only when the three streams couple, the probability of an item rising on the decision agenda is dramatically increased (Kingdon, 1984: 19).

Kingdon's (1984) three streams theory illustrate clearly on how the issues gets to the government's policy agenda. However, the project would like to demonstrate that for more controversial issues like the universal retirement policy, usually political environment (i.e. the political stream) is the main hurdle in order for the policy windows to be opened. To examine more details on the political side, reference to the May's work on political feasibility can be studied.

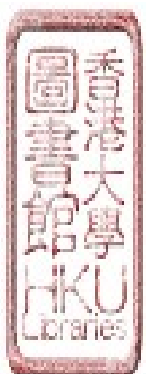
Political Feasibility

May's (1986, 2005) political feasibility is more applicable in the legislation stage and provides some advice to policy makers to formulate strategy to persuade the legislators to buy the concept. May's theory can supplement the others by his political feasibility. Different from other academic theories, May would start with problems, rather than policy itself. He focused on the concentration of the various combination of



different multiple laws, rules and administrative actions to specify the relevant government arrangements. May (1986) points out the one major setback of political science is that much policy analysis were retained at theoretical level and could not provide practical policy guidance in reality.

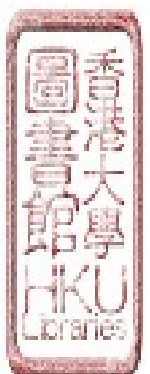
Although Kingdon's (1984) model can provide a dynamic analysis on the universal retirement protection with the interaction of three streams in the process of agenda setting. May (1986) suggests several strategies are applicable to enhance political feasibility of policy making. It is to evaluate and predict the probability of success of a policy proposal by assessing the possible support and resistance of legislators and interest groups. The interest and pricing/costing for legislators are crucial in order for them to get votes in the elections. Those considerations must be carefully assessed in the early stage of policy formation to enhance the chance of the policy's implementation. Moreover, timing is also crucial for the success of policy proposal. Under May's (2005) constraints of unpredictability in policy analysis, he conceptualised the strategies into a political feasibility framework which would help policy makers to form a



policy map. Policy mapping is a “depiction of the lines of political support and opposition for the policy stream.” It lists out a variety of policy possibilities from different points of view.

Policy preference from different political parties or concerned organisations play an important role for the policy making. Building coalition with dominant supporters of the proposal to minimize resistance via means of exemption clauses are the main principles to enhance political feasibility. May (2005) suggests several legislative strategies to improve political prospects, including co- sponsorship of legislators, establishing the contours of debate around a given policy issue, and manipulating policy enactment process. Rhetoric on debates also refers to reframe the problem and solutions to the advantage of the proposals.

Different from the problems and policy streams, May’s (2013) political mapping can flow along according to its own dynamics and own rules, which can affect policy agenda and policy outcomes. To be more accurate for policymaking, and McDonnell & Elmore’s (1987) policy tools – i.e mandates, inducements, capacity-building and system changing – are expected to bring out some particular effects to produce

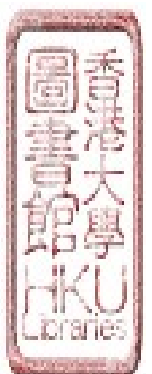


more desirable outcomes.

Policy Tools

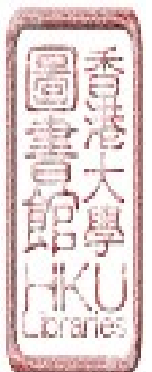
Policy entrepreneurs response when they aware a problem in the society and decide to cause changes in the behavior of agencies or individual to produce socially desirable outcomes. According to Kingdon (1984), the responses are determined by the solutions available, the advocacy of certain solutions and the resources available, including money, knowledge, political support, and organizational capacity, that create the solutions. The solutions chosen are usually not the optimistic one but after a comparative examination and balance of the constraints. McDonnell & Elmore (1987) calls this “authoritative choice of means to accomplish a purpose” as policy instruments and categorises the policy tools into mandates, inducements, capacity-building and system-changing.

These categories differed in their nature. McDonnell & Elmore (1987) explained mandates are “rules governing the behavior of individuals and agencies, and are intended to produce compliance”. Inducement is “the



transfer of money to individuals or agencies in return for certain actions or performance”. Capacity-building is “the transfer of money for the purpose of investment in material, intellectual, or human resources” with an expectation of future returns. System-changing is “the transfer of official authority among individuals and agencies to alter the system by which public goods and services are delivered” based on the expectation that transferring authority will increase efficiency or will alter the distribution of political power.

Policymakers have wide choices of instruments to a policy problem. According to McDonnell & Elmore (1987), how the policy instrument is chosen depend on the way that policymaker defines a problem, the resources the government has and constraints from the environment. He also identifies six significant resources and constraints to be institutional context, governmental capacity, fiscal resources, political support or opposition, information, and past policy choices. Policymakers are using an interactive than a deductive approach in adopting the policy instruments. McDonnell & Elmore’s (1987) analysis on policy choices had supported that the devising and the choice of a policy was an



interaction between ‘problem’, ‘policy’ and ‘political’. Among these three elements, May (1986) elaborated how political feasibility affect policy possibilities.

As mentioned in the above, one of the resources or constraints to how policy choices are chosen was ‘past policy choices’. World Bank’s (2005) Pension Conceptual Framework is exemplary of past policy choices which had guided the government to review the limitation of its current policy in tackling old-age poverty and take reference to its recommendation to devise coming policy.

Pillars

As McDonnell & Elmore’s (1987) describes, there are in general four categories of tools that are available for to policymaker when introducing a new policy. In the context of retirement protection, it is imperative to have a specific framework on retirement policy reform in order to assess on the success of the retirement protection development in Hong Kong throughout of the history. In this regards, the World Bank (2005) Pension

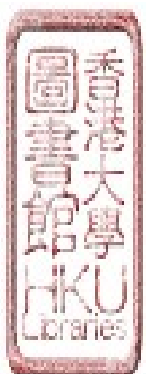


Conceptual Framework is used in our research.

This framework was first presented in the World Bank's 2005 Report – Old Age Income Support in the 21st Century: An International Perspective on Pension Systems and Reform (World Bank 2005). The aim of the framework was to describe a structural thinking process with respect to retirement protection policy formulation, in which it is flexible enough to take into consideration the differences in each country's own conditions (World Bank 2005). It is worth to point out that The World Bank itself agrees that there is no universal solution to retirement protection since it believes that retirement protection is complex issues that involve an wide range of issues (World Bank 2005), such as Political Environment, Financial Stability of the Government, and Demography of the age distribution within the society, However, the World Bank believes that this could still serves as a guide. This conceptual framework is divided into 4 stages as illustrate below.

Initial conditions

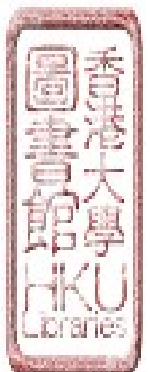
The initial conditions stage is basically to understand the existing



conditions and find out the motivation and constraints factors for reform options (World Bank 2005). According to World Bank (2015), this information includes *inherited systems* (the existing retirement protection systems), *reforms needs* (areas that requires improvement / attention such as coverage gaps and financial instability to fund the system) and *enabling environment* (circumstances within the society may or may not promote the reform such as economic environment, government financial capability and demographic profiles). This stage synchronizes with Kingdon's (1984) 3 streams theory, in particular, the "problem" stream, in which the problem must be first identified.

Setting out core objective

Alongside with the Kingdon's (1984) "problem" stream, after the initial condition stage, the next stage is to set out the objectives of the retirement scheme reform. Policymaker needs to consider a range of factors, as the World Bank (2005) suggests, such as the level of income redistribution income through the pension system, how to strengthening the enabling environment, the transparency of the new system and the level of coverage. Once these core objectives are set out, then the

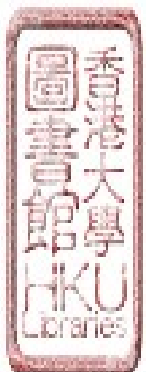


components of the pension system can be identified.

Tools to achieve the objectives – the Five Pillar Framework

As McDonnell & Elmore's (1987) describes 4 general categories for the policy tools that can be deployed, the World Bank (2005) further develops this in the context of retirement protection and summarizes the options available to a policymaker into 5 main "groups", i.e. Pillars. World Bank defines each of them as follow, Zero Pillar as "Non-contributory social assistance financed by the states"; First Pillar as "mandatory with contribution linked to earnings and objective of replacing some portion of lifetime pre-retirement income" ; Second Pillar refers to "mandatory defined contribution plan with independent investment management" ; Third Pillar as "voluntary saving" and Forth Pillar as "Informal Support such as family or formal social programs"

It is essential to note that the World Bank stresses that for a comprehensive retirement protection system, each pillar is essential to be present. However, the proportion / focus on which pillar(s) will hugely depend on the policymaker, taking into account of the initial conditions,

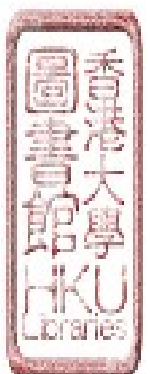


as different pillars are designed to suit or address the needs of different vulnerable groups within the society.

Evaluation Criteria

The World Bank (2005) has suggested the retirement protection system should be evaluated in two stages. The first stage should be in the design stage and it should be evaluated according to *Adequacy* (whether the reform can provide enough benefits that prevent old-age poverty for the whole population), *Affordability* (whether the society can afford without sacrificing resources for social economic growth), *Sustainability* (whether the proposed system can be financially sustained), *Equitability* (whether the proposed system is a justified and equitable system), *Predictability* (whether the system can provide constant and sufficient level of benefit without being affected by outside factors such as changes of the government and other economic variations, for example inflation) and *Robustness* (whether the system has the capacity to withstand major shocks such as economic, political or demographic variation)

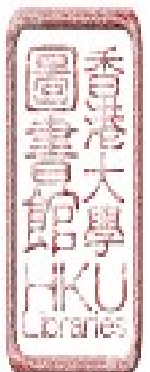
The second stage of the evolution is related to the output/growth to the



society. This is because any retirement protection system is also a source of income that will link to its ability to support economic stability and development. As the World Bank (2015) suggests, the criteria are *Minimization of labor market, Contribution to savings mobilization and Contribution to financial market development.*

Finally, the World Bank (2005) also suggests that for the reform to be successful, it will also requires long term commitment by the government, society support and leadership. Note that here society support includes politician and general public, in which it can be referred back to Kingdon's (1984) "political" stream, this shows political environment acts as an crucial factors as well.

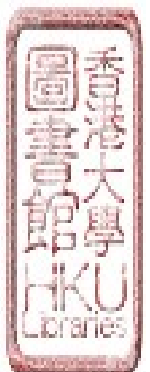
The World Bank (2005) is a suitable reference model to our analytical framework in the following aspects. Firstly, it services as a guide to identify areas within our welfare systems that the government can potentially improves on. In terms of the Kingdon's (1984) framework, it can helps the policymaker to identify the "problem", i.e. the policymaker can make reference to this "ideal" framework and identify areas in which needs to improves on according the that country's own situation and



priorities on when to put it on the policy agenda. Secondly, as McDonnell & Elmore (1987) describes, how the policy instrument is chosen depend on the way that policymaker defines a problem, the resources the government has and constraints from the environment. This pillar and its evaluation criteria provides a framework and criteria for the policymaker to decide which policy tools, as described by McDonnell & Elmore (1987), according to the country's own specific condition such as political environment, financial stability and population demographic.

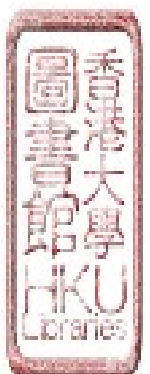
Concluding Comments

This analytical framework developed in Chapter 2 provides a structured way to analyze the problem, policy and political forces in policy process of retirement protection policies over the years and the current environment leading to universal retirement protection policy. This allows the study of Political and Administrative Dynamics on making policy choice. As mentioned above in various occasions when describing various components in our analytical framework, political environment seems to be a crucial factors across all level of it. Firstly, the political environment will surely affect the mode of governance. Depending on

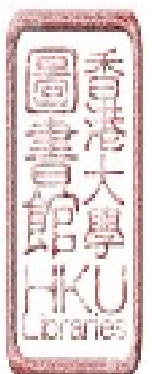


the constitution of the government, it would have different level of the political power and it could affect on the resistance of introducing new policy. As the society evolves the political environment would inevitably become more complex when there are more parties involved or want to be involved. Therefore, the government has to respond in order to maintain its legitimacy to govern by changing the mode of governance accordingly. Secondly, Kingdon (1984) identifies “Political” as one of the main components for the policy window to be established. This is further illustrated by the political feasibility as mentioned by May (1986, 2005) and this will also affect the policy tools that the government employs.

Overall, this project focuses on how the political environments changes over the years and its effect by looking through the changes through the components in the analytical framework like governance, policy tools and policy formulation. Changes in this components overs the years will give indication on the changes in the political dynamics, thus showing on how the political environments can affect how the government formulates the policy for various aspects.



The objectives are to first providing a brief summary on the development of the retirement policy in Hong Kong and analyse the political dynamics during each of the period. Then a further discussion will be made on the recent idea of demo grant and whether the current political environment will facilitate the introduction of such policy by using the same analytical framework.

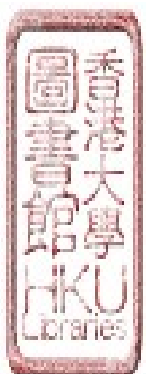


CHAPTER 3 – The development of retirement policy in Hong Kong, from colonial times until now

Introduction

The Hong Kong's retirement policy was closely linked with social security in early years. While social security had helped to provide support to the people who suffered extreme hardship, the old age poverty problem had still been worsened over the years for reasons of increase of lifespan and increase in cost of living. The government and the society had focused to help the vulnerable people in society by different ways and also increased the focus on prevention of old age poverty. The retirement policies were started to be developed.

This chapter illustrates how retirement policy evolved over the years and analyze the effect of governance, problem, policy and political perspective on its development. The situations of “Mr. CHAN” and “Mr. WONG” are used to represent two different groups – one with extreme financial hardship and one earning normal income in Hong Kong society

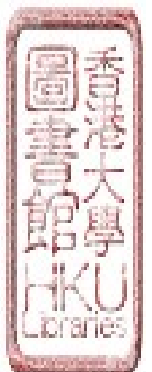


– to look at their financial situation after retirement in different eras in Hong Kong.

The Retirement Policy in Hong Kong in 1960s

Development in 1960s

The Chinese tradition is to look after the elderly by their families. This cultural factor existed in Hong Kong even though it was under the rule of the colonial government. The colonial government also regarded the poverty problem of elderly as personal problem in its early years. People who could not support their own living would rely on family support or charity organization. However, there were people not receiving enough support and lived in poverty. The colonial government issued the first social welfare white paper in 1965 (Chi, 2005). The Government embarked on a study of the feasibility of establishing Central Provident Fund (CPF) in Hong Kong but there were no policy came up. In 1967, an inter-departmental working group suggested implementing public assistance and social insurance and the government focused the discussion on its financing source. The proposal was



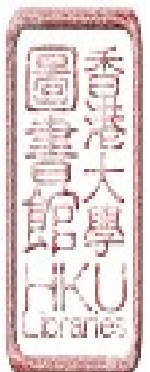
conservative. Individual will contribute to the funding and if the funding is not enough, the government will supplement. However, the Kowloon riots in 1967 had stopped the major social policy reform by the colonial government (WONG, 2015).

In 1960s, “Mr. CHAN” had no personal saving and family support and lived in poverty once he was unemployed. “Mr. WONG” relied on personal saving and family support after retirement, but he would have been in poverty if he did not have enough saving or lost family support.

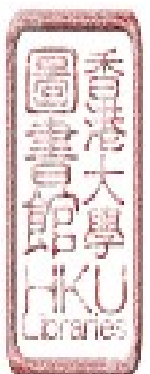
Mode of governance in 1960s

At that time, the mode of governance of the colonial government was rather hierarchy. As there was no affiliation with private sector, the government solely involved in the retirement policy consultation and formulation, the government had barred the responsibilities to provide the assistance in tackling the poverty issue in Hong Kong especially for elderly.

Problem perceived in retirement protection in 1960s



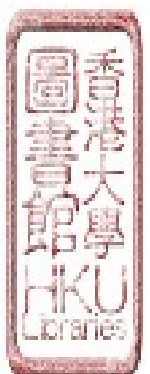
Starting from late 1950s, the economic condition of Hong Kong improved steadily and the division between the well-off and the poor tended to grow larger during the same period. Despite the growing economy, Hong Kong's society had become more and more complex and fragmented that the informal or traditional network, for examples local private charities or small kaifong groups, had broken down. That was a problem according to the Kingdon's (1984) theory that people from walks of life were not able to benefit from the prosperity of Hong Kong developing economy and they desperately required assistance from either by society or their family members. The Hong Kong government at that time was under great pressure to maintain economic growth as well as to formulate policies to help the poor. It was until the late 1960s the Hong Kong government can carry out transition of social services from the provision of minimal basic supports to a relatively comprehensive social services because of the Hong Kong's successful industrialization. At the time certain higher-level services, which were proposed in the late 1940s, were still in very slow progress due to the expand of local population from Mainland China and the local economy was insufficient to support a



sophisticated social service thus no retirement protection policy could be considered under this situation.

Political environment influencing retirement protection policy in 1960s

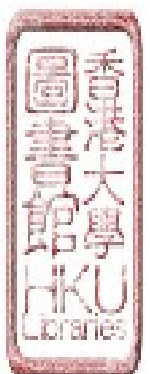
Hong Kong's political environment in 1960s was in chaos because of its own social unrest and the affection from the China's Cultural Revolution which was lasted 1966 and 1976. In 1966, Hong Kong experienced its first disturbance stimulated from the rising fares of the Star Ferry. At the time there was campaign with 20,000 signatures collected in protesting the increases in transportation costs. The riot was ended up swiftly with the result of arresting 1,800 people. The other disturbance was in 1967 in which there was internal conflict within the China's Communist party and eventually escalated to the started of Chinese Cultural Revolution. At the time Hong Kong based pro-communist leftists challenged the colonial government and there were different demonstrations and even violent confrontations causing social unrests. There were also spreading of rumors that China was preparing to take over the colony. Subsequently the political tension between the colonial government and Hong Kong was stressed. After the riot and social unrests, the government focused



their efforts in cleaning up communist networks, strengthening their governance and stabling the society, especially by offering social welfare to young generations. Therefore the political attention in 1960s was seldom on retirement protection, but on stabilizing the society and strengthening the British governance.

Policy on retirement protection in 1960s

By looking at this era from the policy tools perspective, it fitted McDonnell & Elmore (1987)'s view that how policymaker defined a problem would determine what policy to be chosen. The colonial government had firmly believed that old age poverty was the responsibility of individuals and/or their families. Although they started to see the need to assist the poor elderly, they emphasised control measures had to be maintained to ensure that the incentive to be independent as individuals or family groups support not weakened and that the future capacity of the economy to finance public assistance not to be jeopardized. The resources that the government had were also important on the policy choices. In the 1960s, the government had better fiscal resource from the rapid and successful industrialization enabled it

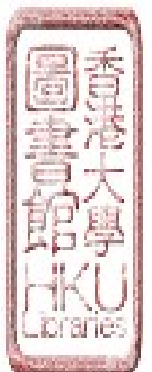


to develop social services.

The Retirement Policy in Hong Kong in 1970s

Development in 1970s

In 1971, the colonial government had set up “Public Assistance” Scheme to help the poor people. This scheme was later transformed as the current Comprehensive Social Security Assistance (CSSA) Scheme. The second social welfare white paper was published in 1973. In the same year, another scheme called “Disability and Old Age Allowance” was introduced. It was a non-means-tested scheme and was later transformed as the current Old Age Allowance and Disability Allowance. (WONG, 2015) In 1970s, “Mr. CHAN” had no personal savings to support his life and would be eligible for receiving Public Assistance when he reached 65 years old. He would be given \$3,055/month (reference to CSSA in 2014) and not able to obtain Disability and Old Age Allowance at the same time. “Mr. WONG” would rely on personal saving and family support. He would not pass the mean test for Disability and Old Age Allowance when he was 65-69 years old. He would have \$1,180/month (reference to Old Age Allowance in 2014) when aged 70.

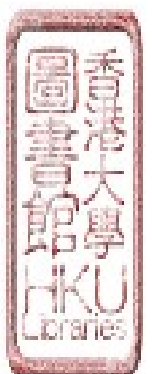


Mode of governance in 1970s

The mode of governance in 1970s was similar to that of 1960s, in which the colonial government at 1970s also adopted the interventionist mode of governance. The government had continuously taken up the overall responsibility to ensure the retirement protection of Hong Kong citizens.

Problem perceived in retirement protection in 1970s

If analysis from the Kingdon's (1984) perspective, during this period, Hong Kong become China's major trading partner after the Korean War. The cross-border trade grew at an average annual rate of 29% between 1978 and 1999. The flourishing of business, both large- and small-scale, provided numerous job opportunities to absorb the large quantity of manpower, resulting in a rapid improvement of workers' livelihood and keeping Hong Kong in a favorable condition for social and economic development. The unemployment and underemployment rates stood at an extremely low level and most of the citizens enjoyed the fruitful results of the economic development. Very few citizens or political

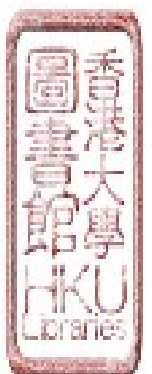


parties at that time think of the implement of retirement protection policy in Hong Kong.

Policy on retirement protection in 1970s

From the policy tools perspective, the colonial government's conservative welfare philosophy stayed the same as their view on individual and family support to old age poverty was largely remained the same. The aids for elderly were basic reliefs. This institutional context could also be seen as a constraint to policy choices. The laissez-faire policy and non-interventionist approach adopted by the government had significant implications for its passive welfare policy. Mean-test, narrow scope and scale of aids confined welfare services to the most needy people. The first welfare policy implemented staged the commencement of system changing. In the past, elderly was supported by individual, family and voluntary agencies engaged in social welfare. Now, the government's involvement was added.

Political environment influencing retirement protection policy in 1970s

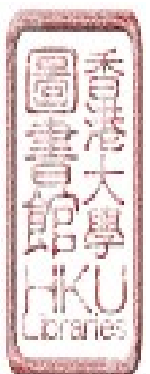


In addition, politically, there was no public mood to support the retirement protection because no eagerness could be seen. This can be seen in the 1973 White Paper on social welfare, which gave three reasons for the rejection. It mentioned that the compulsory contribution would not be acceptable to Hong Kong people generally and the lengthy preparatory period would place heavy burden on employers. As there was no political pressure and demand from the public, no politicians tried to speak out for this.

The Retirement Policy in Hong Kong in 1980s-1990s

Development in 1980s - 1990s

In 1980s, labour organizations, unions and social welfare agencies advocated for a contributory social security scheme which included the retirement protection. (WONG, 2015) The government and Legislative Council discussed on Central Provident Fund (CPF) but the opinion was divided. Although the aforesaid interest groups voiced out for such changes, the colonial government still adopted an interventionist approach. The colonial government did not favor the CPF due to the



concern that financial, monetary and foreign exchange markets would be affected by the large volume of fund. The scheme was also considered not effective by the colonial government as it could not provide sufficient protection for the retired people and employers would suffer from additional costs (Legislative Council Archives of Hong Kong Special Administrative Region, 2005). In 1989, the Hong Kong Social Security Association drafted a contributory old age protection scheme. The scheme was to be contributed by employer, employee and government to ensure the retired person can receive 30% - 40% of their previous monthly wage. This proposal attracted lots of discussion and revised proposals.

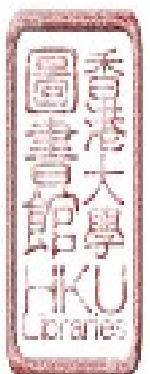
In early 1990s, there was rapid growth in economy in Hong Kong and the job market had become more competitive. A lot of old workers could not find jobs to maintain their living. It was also observed that family support was deteriorating. Public Assistance and Old Age Assistance had become their source of income. The government was requested to deal with the problem (WONG, 2015). Under the pressure, the colonial government endorsed to implement mandatory retirement protection



scheme in 1991.

In 1992, another consultation paper on retirement protection was issued and the public focused on whether the government should act as the pension fund's ultimate guarantor. The concern was that (1) the unfairness to require everyone to put his/her funds to an investment risk; (2) moral hazard that people will choose higher return investments if government will be the guarantor. The Government, after serious consideration, was unwilling to take the risk to implement such system in Hong Kong (Chi, 2005).

On 9 July 1992, Chris Pattern became the 28th Governor of Hong Kong. He had changed the colonial government's negative position towards social insurance scheme. The new scheme was proposed that would provide all eligible residents aged 65 or above would receive a monthly pension equivalent to roughly 30% of the median wage. The funding was the contribution of 1.5% wages each from both employers and employees. The Government planned to make a capital injection of HK\$10 billion as a start-up fund to finance the set-up cost for the proposed scheme. In the proposal, the Government stated the scheme



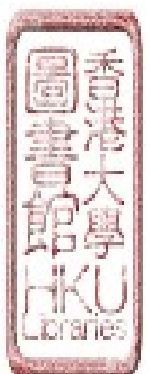
could offer the following advantages over CPF on immediate benefits to the elderly, wider coverage, inflation-proof income at a guaranteed basic level and a lower rates of contribution required from employers and employees. Views were generally divided on the proposed scheme. For the opponent, they argued the scheme mixed up with the concept of social welfare and it has shifted the burden of retirement protection to the society, instituting an unfair scheme as benefit received was not related to the amount of contribution, the amount might be inadequate for the poor and superfluous for the rich (Legislative Council Archives of Hong Kong Special Administrative Region, 2005). The scheme was abandoned by the major opponent from the business sector, financial and insurance companies and economists. Some NGO also claimed the Government subdued under the pressure of the employers (WONG, 2015).

In early 90s, provident fund schemes grew popular in the stock market, the government finally decided to establish a regulatory regime for retirement schemes. The colonial government implemented the Occupational Retirement Schemes Ordinance and feasibility of establishing Mandatory Provident Fund (MPF) in 1993 (Chi, 2005). The



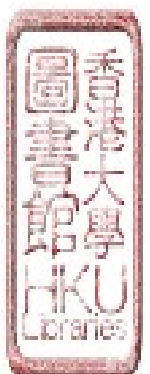
policy alternative was switched from CPF to MPF because the lobbying of the financial sector. This matched with the stand of the government to reject contribution, management and financial guarantee of the CPF. The government perceived that a mandatory employment-related contributions system would thus complete the three-pillar approach, and incidentally make Hong Kong one of the pioneers in applying the World Bank's conceptual framework (Chan & Mandatory Provident Fund Schemes Authority, 2015).

In March 1995, the colonial government introduced a mandatory, privately managed occupational retirement protection system. By the time the administration made a firm commitment, time was running out for the necessary legislative work to be completed before the handover of sovereignty in 1997. Legislators were requested to support the overall scheme even though details remained conspicuous. Pro-grassroots and some independent Legislative Councilors commented the administration was forcing them to sign a blank cheque. But the government assured the unionists that they would review a few aspects of the scheme for protection of low-income earners. The government also made clear then,



if the MPF plan was defeated, they would do nothing further to pursue the subject of retirement protection, making the unionists said they had no choice but to support the scheme (Time to end MPF debate, 1997). By 1995, the bill was passed when LegCo voted 28-21. The MPF Schemes Ordinance (MPFSO) was enacted and replaced Occupational Retirement Schemes in 2000. (Chi, 2005)

In 1990s, “Mr. CHAN” had little accrued benefits from MPF as he was underemployed in his career life and he no personal savings. Sooner or later, he needed to apply Public Assistance of \$3,055/month (reference to CSSA in 2014). “Mr. WONG” earned \$14,354 per month which was the same as the median wage of employees in Hong Kong (Hong Kong Average Monthly Salaries 1999-2015, 2015). He and his employers will contribute 5% to his MPF monthly as according to the MPFSO. If the annual rate of investment return is 4% per year (net of fees and charges) and started investing only from age 45 (year 2000), the accrued benefit would be \$0.74 million at age 65 (2020). He would also receive \$1,180/month from Old Age Allowance (reference to Old Age Allowance in 2014) when aged 70. If “Mr. WONG” spends \$6,000 per month, his

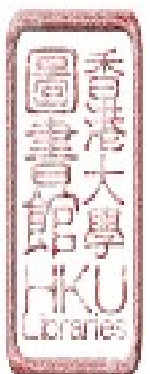


accrued benefits from MPF and Old Age Allowance received since aged 70 will be lower than \$28,000 at 77 years old (neglected inflation). He will need to apply CSSA of \$3,055/month (reference to CSSA in 2014) afterwards.

Overall speaking, there was a great development in retirement protection in Hong Kong in 1980s to 1990s. There are numerous policy choices discussed in the period and Mandatory Provident Fund was finally adopted as a new and one of the main pillars of Retirement Protection in coming 15 years.

Mode of governance in 1980s-1990s

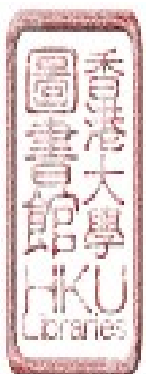
Before Chris Pattern became the governor of Hong Kong, the government had considered to shift the burden of the retirement protection from government to individuals. In this regard, the colonial government tended to adopt a regulated self-governance in which the government induced a more co-operative relationship with private sectors and individuals with legal foundation.



In 1992, the mode of governance under Chris Pattern at that time was considered as regulated self-governance. In order to enhance the retirement protection system, a new scheme had been proposed which was the MPF. The Government had put her focus on the enhancement of the co-operation with the private sectors and thus a co-operative governance mode had been adopted for the retirement protection scheme. The private sectors such as financial and insurance companies played a more dominant role in the retirement benefits of Hong Kong citizen. The government in turns only responded in the establishment the legal foundation for such scheme and set up the monitoring system for the purpose of check and balance for the private sectors.

Problem perceived in retirement protection in 1980s-1990s

From the Problem stream perspective, in 1996, Hong Kong has become China's third largest trading partner (after Japan and the United States), and accounted for 14% of China's total trade. Again, the flourishing of business, both large- and small-scale, provided numerous job opportunities to absorb the large quantity of manpower, resulting in a rapid improvement of workers' livelihood and keeping Hong Kong in a



favorable condition for social and economic development. Before the hand-over, the Gross domestic Product (GDP) and the per capital GDP increased yearly. Very few citizens or political parties at that time think of the implement of retirement protection policy in Hong Kong.

In the last 20 years of the colonial era, Hong Kong's economic development had nearly quadrupled. Hong Kong enjoyed an average annual growth rate of about 7% in real terms in its GDP. Hong Kong outperformed the Organization for Economic Cooperation and Development (OECD) countries in this respect. Also, Hong Kong's per capita GDP, valued at approximately US\$24,000 in 1997, had nearly tripled in real terms, equivalent to an average annual growth rate of about 5%. It was the third highest value in Asia, next only to Japan and Singapore, surpassing that of the United Kingdom, Canada and Australia, and broadly at par with that of France.

Hong Kong had more or less achieved a full-employment status for many years. The workforce as a whole benefited from this respectable economic performance through a continual rise in income, both in monetary terms and in real terms. The monthly household income



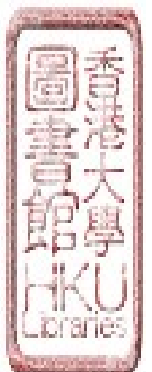
increased constantly between 1991 and 1996 and the median monthly domestic household incomes had put up about 75% during that period.

The quality of life of Hong Kong people, including the most disadvantaged ones, would theoretically be improved by society's increasing economic prosperity.

Apart from the economic success, Hong Kong experienced rapid political, social and economic changes in the 1990's, there were more and more new arrivals from China who require assistance for adapting well to the life in Hong Kong.

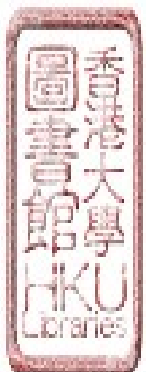
Policy on retirement protection in 1980s-1990s

In 1980s, the problem of old age poverty had become more alarming but the government also confine itself to the constraint that Hong Kong is not to be transformed into a welfare state. The welfare policy should not create “the sort of dependency culture that has emerged in some developed industrialized societies, a phenomenon that removes the



incentive to work and undermines the productive engine of the economy” (Hong Kong Government, 1991). When choosing the optimal policy to be adopted, past policy choices from the World Bank Framework was referenced and assisted to make the decision of adopting a mandatory employment-related contributions system. The governmental capacity and fiscal resources had been considered and hence the government rejected CPF and as the guarantor for pension fund. The MPF policy was a well considered policy in the aspect of governmental capacity and hence MPFA was set to govern the implementation and monitoring.

From the policies discussed, the government was adopting a capacity-building strategy to help the working population to be responsible for their retirement living. The MPF was a capacity-building policy as the government spent on Mandate Provident Fund Authority to enable the system work and enable the public to save and invest for the money to support their retirement. The policies considered also reflected system-changing with employers involved in retirement preparation of the population and private sector as the trustee and make investment for the

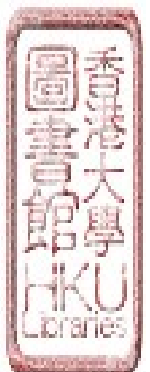


retirement protection. Mandates was the strategy to ensure the smooth implementation of the chosen policy.

Political environment influencing retirement protection policy in 1980s-1990s

Political development is indispensable to social welfare development. Political participation and / or through election are direct way to strive for improvement in social welfare system. Some perceive democracy will be even more effective in affecting social welfare development.

The political reform in 1980s had led to the study the retirement protection policy. The functional constituency election brought the business and trade sectors into the Legislative Council. Moreover, the trade unions and lots of pressure groups were created to advocate for a better protection for the elderly. Up to that moment, MPF system was the final proposal for a policy tool to maintain its legitimacy and alleviate the pressure from political parties and concerned pressure groups.



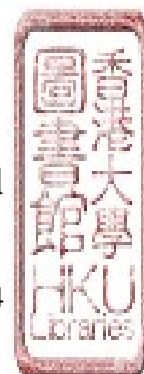
The Retirement Policy in Hong Kong in 2000s

Development in 2000s

In 2000s, the HKSAR government was in the midst of redefining its role and function in the field of social welfare (LEE, 2009). The government reorganized its Social Welfare Department in 2001 (HKSAR Government, 2001) and initiated new policies to address social issues caused by fiscal deficit, unemployment problem generated from economic restructuring and recession and subsequent demand on social security support.

In 2005, Community Living Supplement was payable in each month to the old, disabled or medically certified to be in ill-health CSSA recipients and who were not living in institutions. This involved \$285 per month (reference to the rate in 2014) grant. In 2009, elderly health care voucher worth \$250 were given to elderly aged 70 every year, the amount increased to \$2,000 in 2014.

In 2004, a civil society called Alliance for Universal Pension was formed

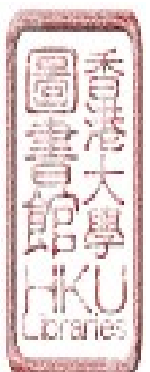


from more than 50 NGOs to advocate universal pension. Legislative Council passed a motion to urge the government to set up an old age pension and a motion to urge the government to establish universal retirement protection in 2006 and 2008 respectively.

In addition to what they could be received in 1990s, “Mr. CHAN” and “Mr. WONG” will receive health care voucher. Mr. CHAN will also receive \$285 of Community Living Supplement and so as “Mr. WONG” if he later become eligible for CSSA.

Mode of governance in 2000s

After the establishment of the MPF scheme, the government was considered as closely worked with private sectors and that a private self-governance had thought to be established. The government gave a free hand to the private companies on the setting of administrative cost for different plans of MPF, the high administrative cost of MPF which had been compared with relatively low return portfolio, the government was blamed for such arrangement and the MPF had been considered as the benefit for the private sectors only instead of the benefits of Hong Kong



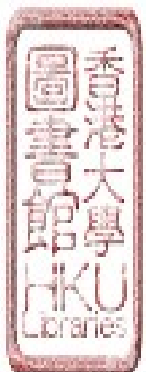
citizen for their retirement protection.

Problem perceived in retirement protection in 2000s

If referring to Kingdon's (1984) point of view, with the downward social and economic development since 1998 because of the Asian financial crisis, the unemployment rate raised, the increasing disparities between the poor

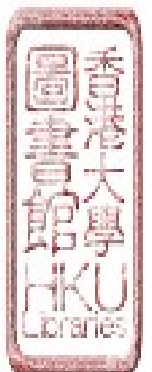
and the rich, the increasing amount of money spent on supporting the needy people by social security scheme and CSSA, the increasing number of low-income households, the high-tech-savvy younger generation, and the aging population (HKSAR Government, 2003B), were reasons that required the government to refine its direction in welfare policy, including retirement policy, so as to address the problems and the public needs.

At the time, the revision of the social security system, the improvement of elderly services, the provision of proper services for young people, and the modification of the family and child care services were some of the urgent tasks which should be carried out as soon as possible.



Besides, with the increasing number of ethnic minorities, it has been a new challenge for the government to facilitate ethnic minorities integration to the community, build up harmonious community and implement social protection for the group.

In 2000, the Mandatory Provident Fund Scheme has started its operation. This proper social security system has been pushed by labour groups and social workers since the 1970s but the government backed by employers, industrialists and financiers, was reluctant. After twenty years of debates, bargaining, and compromises, the government finally agreed to set up the Scheme. However, there were certain problems for the MPF, first it was delivered purely by market providers. Second, the government role was minimal: it confined itself to forming a public body to oversee the proper running and regulation of the scheme but refuses to guarantee the solvency of the investment, thereby placing all risks on contributors. Third, the return on investment depended solely on the performance of the chosen funds. Finally, it was commonly agreed that the MPF fell short of yielding adequate income for retirement. For people paying low premiums, the yield might be lower than social assistance. Therefore,

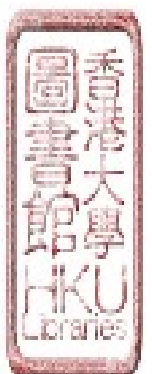


there were motions to urge the government to establish universal retirement protection apart from MPF scheme.

Political environment influencing retirement protection policy in 2000s

For Hong Kong, the 2000s was also an era in which the political power was seen to affect the government policy a lot. When analyzing the situation, it is imperative to first understand how different political parties/ideas insert their influences, whether inside the legislative councils or locally.

In 2004 and 2008, 30 directly elected seats out of 60 seats totally, accounted for 50% of the seats in Legco, which were from direct election of geographical constituencies while the other 50% , i.e. 30 seats were from functional constituencies elected in specific industries, such as education, agricultural and fisheries, etc. The value of votes was uneven between different constituencies. The functional and geographical constituencies are different concepts for elections. The voting results were more cling to more pro-government camp side. But in some sense, the degree of democratization had been rising, which was shown by the



increasing number of elected seats from geographical constituencies. Universal Retirement Protection had been one of the controversial and hot topic for all the legislative council members and politicians to bring out for their votes. In order to compete for votes in election campaign, all political parties would bring various social welfare issues into their manifestos to gain the political support from the comparatively lower class income groups, which were supposed to be the majority. The political parties in Lego were generally classified into two groups, the pan-democratic camp and pro-establishment camp respectively. But for the votes, although the government tried to make the conclusion to reaffirm the sustainability of the current three pillars system, both camps tried to seek for something on the universal retirement protection, forming the Sub-committee on Retirement Protection under the Panel on Welfare Services in Lego to study and discuss the plan in depth.

Policy on retirement protection in 2000s

From policy tools perspective, the increase demand of social support had encouraged the policymaker to implement distributive policies to help the ease the burden of elderly who were eligible. Although the Legislative

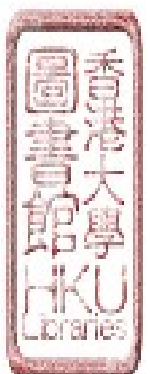


Councilors had urged to set up old age pension and establish universal retirement protection, but the policymakers were reluctant in view of the resources the government had and constraints from the financial principal adopted by the government over the years. The policies were noted with system-changing as the Community Living Supplement and health voucher had restricted the service provider to be NGO / private sectors and confined the elderly to spend the money in improving their living standard and avoided the money to be used by other family members.

The Retirement Policy in Hong Kong in early 2010s

Development in early 2010s

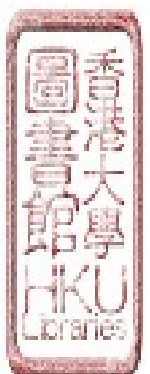
In 2011, the Subcommittee on Retirement Protection of Legislative Council requested the Research Division to provide information on (a) the World Bank conceptual framework on the pension system reform and (b) retirement protection system in overseas places (Legislative Council Archives of Hong Kong Special Administrative Region, 2011). Legislative Councilors requested the government to take reference of World Bank's five-pillar model and to establish universal retirement



protection in Hong Kong which was the first pillar that the current system lack of. Regarding the model, the World Bank has stated that the multi-pillar model is only a framework and not a blueprint that fit all societies. There are a number of reasons affecting the number and forms of the pillars to be adopted, including existing retirement protection scheme and other related public policies, specific needs for reform, the management capacity and development of the financial market, etc (World Bank, 2005).

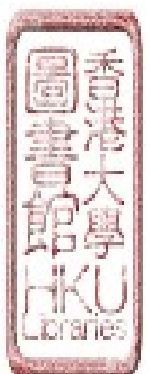
In 2012, Residential Care Supplement was payable to the old, disabled or medically certified to be in ill-health CSSA recipients on monthly basis who were living in non-subsidized residential care places. This involved \$285 per month (reference to the rate in 2014) grant. In 2012, public transport fare concession allowed elderlies to take public transport at a fare of \$2.

MPF as the main retirement protection policy at the time was subject to criticisms, especially after world wide economic turmoil in 2008 for which the citizens' accrued benefit was seriously affected by poor performance in stock markets. People also complained about the high



administration fee charged by the trustee that had taken away their money. As a result, the government introduced Employee Choice Arrangement to the MPF scheme to allow employees to transfer accrued benefits derived from their own mandatory contributions made to a MPF trustee they choose. This would encourage the MPF trustee to compete for better investment performance and also lower the administration costs.

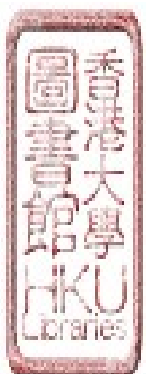
“Mr. CHAN” needs to apply CSSA of \$3,055/month, he will also have Community Living Supplement / Residential Care Supplement of \$285, health care voucher of \$2,000/year and transport fare concessions (all reference to rate in 2014). “Mr. WONG” has an accrued benefit of \$0.74 million at age 65 (2020). If “Mr. WONG” spends \$6,000 per month, his assets from accrued benefits from MPF, Old Age Allowance received since aged 70 and health voucher received since aged 70 will become lower than \$210,000 in 74 years old (neglected inflation). He will be then eligible for Old Age Living Allowance. His remaining asset, Old Age Living Allowance will be used up and lower than \$28,000 in 78.8 years old and he will need to apply CSSA of \$3,055/month (reference to



CSSA in 2014) afterwards.

Mode of governance in early 2010s

Originally, the government applied a private self-governance on the MPF scheme at the time of the Ex-Chief Executive Donald Tsang. As mentioned before, more and more grievance on the effectiveness of MPF has been expressed by general public. In order to settle this controversy, the government in turns tried to introduce more freedom in the arrangement of the MPF plan by the citizen. The magnitude and the effectiveness of such improvement was in doubt as it caused certain difficulty for the general public to understand. In this regard, the governance mode has been changed to co-operative governance. After the scandal of Donald Tsang that he was suspected in binding to the private sectors during his appointment of CE, the general public thus have raised the concern in the unbiased governance who should uphold the public interest as the paramount importance instead of the benefit of private sectors. In general, more regulatory action should be taken by the government in the provision of MPF and so a regulated self-governance was expected.

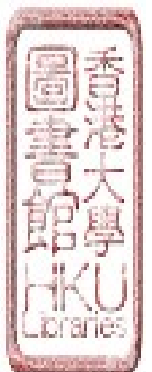


Problem perceived in retirement protection in early 2010s

In early 2010s, there were local and global research suggesting the aging problem in Hong Kong was alarming. But the chaos in Hong Kong politics and the poor relationship between legislature and administration, had left the retirement protection with no progress. Meanwhile, the labor pool in Hong Kong had started to shrink which might lead to a protracted low economic growth.

This marked a significant change and had shown that the city's demographic issue was urgent. The problem was worsened by the declining fertility rates since 2000s which was now the very bottom percentile in CIA World Factbook rankings.

The city's age dependency ratio was forecasted to climb to 42 percent by 2020 from current 35 percent which was already the second-highest in Asia after Japan. With the population aging, the size of the labor force is set to decline and posed a great threat on economic growth and on government revenue. Therefore, the problem perceived in retirement

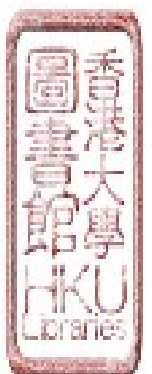


protection in early 2010s had not been eased but even expected to be worsened in future.

Political environment influencing retirement protection policy in early 2010s

Hong Kong's political climate became diversified since 2010. There were five opposition Legislative Councilors resigned and subsequently gained their seats back by winning elections they triggered with the intention to pressure China granting Hong Kong full democracy. Meanwhile Mr. Leung Chun-ying had taken his office as chief executive in July 2012 , succeeding Donald Tsang that were under the accusation of his relationships with wealthy businessmen during his last months in the office. Mr. Leung was observed taking a strong approach towards opposition parties and the confrontation between pro-democracy camp and pro-establishment camp has been dramatically escalated thereafter.

In 2014, ten thousands of protesters involved in a large protest. In the same year, the central government confirmed the election procedure for Hong Kong Chief Executive in 2017 which the pro-democratic parties

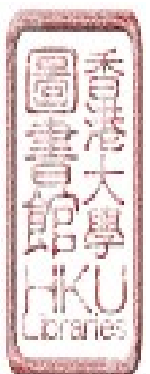


refused to accept such arrangement. Subsequently, the occupy movement was broken out in protest at the Chinese government's decision to limit voters' choices in the 2017 Hong Kong leadership election. More than 100,000 people went to the streets at the height of the Occupy Central protests. It was until before the end of 2014 that the occupy movement was come to an end. In mid-2015, the Legislative Council rejects proposals for electing the CE, i.e. part of the issues for the political reform in 2017 which made the plans remained the same as those outlined by China in 2014.

Clearly, in early 2010s the attention of the government and the political parties were in politics issues such as the proposals of political reforms and the disputes between pro-democracy and pro-establishment camps. Little, if not no, attention has been paid in the social issues, including the retirement protection policy.

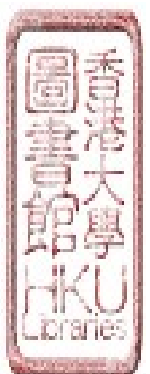
Policy on retirement protection in early 2010s

In 2010s, the demand for better social security system continue to rise and more focus was put on the situation of the elderly. Hence, it was



founded that the distributive policies were enlarged and increased. This was also because of the better fiscal resources in the government that allowed the policymakers to introduce these policies. The Legislative Councilors also urged the policymaker to obtain information from the World Bank conceptual framework and overseas experience. Information was one kind of resources that McDonnell & Elmore (1987) required to choose policy instrument. Information also assisted policymaker to understand other resources and constraints on possible policy choices.

From May's theory, Hong Kong people are basically classified into three categories on retirement protection by mapping. The first class is the group who support the government to provide the elderly with adequate protection, so called "universal retirement protection". The second group of the group who strongly oppose to any form of retirement protection, hence they do not like "welfarism". They are usually the businessmen from private sectors. Their concerns will be financially infeasible, slow economic development, stronger burden on them for employers. The third category is the more discreet group, who prefer to progress step by

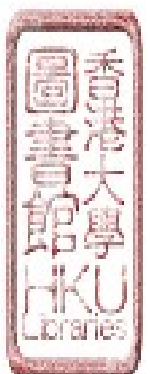


step. They will view the universal retirement protection from the angle of social and economic development.

According to May (2013)'s theory, some crucial questions on conceptual understanding must be clear to the public. First, conceptual difference of "who is responsible?", ie whether all senior citizens, no matter rich or poor can enjoy a fully dignified life. Secondly, difference regarding the role played by the government in retirement protection should be considered. Whether the level of financial support to the elderlies in need only for basic livelihood protection must be defined. Thirdly, difference in understanding the relationship between retirement protection and income should be considered.

In view of the three conceptual differences, the research report on Future Development of Retirement Protection in Hong Kong prepared by Professor Nelson Chow tried to facilitate the condensed and un-confused discussion, his research team would use the term "demo-grant" to do the analysis.

Under May's approach, means test may create labeling effect and

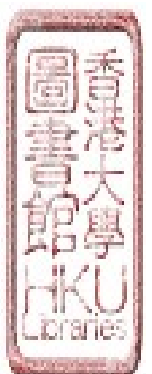


administrative confusion and may hinder some elderlies in need from getting the support they should have. How to solve the labeling effect by adjusting the mean-tests level to get the balance to minimize the welfarism should be carefully considered.

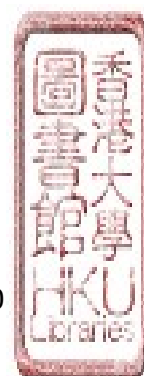
Concluding Comments

In the time of 1960 to 1970, as discussed in the above paragraphs, the mode of governance in Hong Kong is rather hierarchical, and the responsibility for the retirement protection policy discussion and provision were fell on the government. At that period, the relatively low political dynamic between the government and other political parties were observed and the retirement protection policy was thus determined mainly by the mode of governance in Hong Kong.

Over the decades, the change of political dynamics especially after the change of sovereignty in Hong Kong, the mode of governance in the retirement protection policy had been considered as less important than that of the change in the political environment as well as the rise in the public awareness on the public policy and political controversy between different political parties and also government. The importance of the



political dynamics in the retirement protection policy would be further discussed in the following chapter.



CHAPTER 4: Evaluation of Current Political

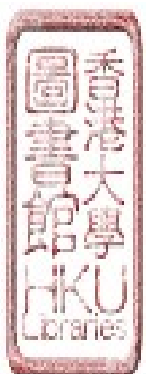
Circumstances in Hong Kong

Introduction

In Chapter 2, the concepts from the work of the mode of governance (Knill and Tosun 2012), three stream theory (Kingdon 1984) along political mapping and feasibility (May 1986), policy tools (McDonnell & Elmore 1987) and the World Bank's (2005) 5-pillar model have been studied to assess the retirement protection developments. In this chapter, more current political circumstances are considered to evaluate to get the whole picture thoroughly.

Change of Governance on the Retirement Policy Development in Hong Kong

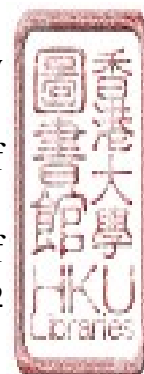
From the governance perspective, the four ideal types of governance would definitely affect the policy formulation and implementation. In the past, Hong Kong government adopted different types of governance



in the retirement protection policies. For example, the Hong Kong government adopted a rather interventionist governance on the retirement protection policies, such as the invention of Public Assistance (PA), Comprehensive Social Security Assistance (CSSA) in 1971 and the execution of the Pension system for Civil Servants. From the policies so developed at that time, the general responsibility of providing retirement protection was on the government side, and in other words, the government formulated the policies and laws actively without the participation of private sectors. Nevertheless, the government had not forced the private sectors to follow the steps of the government in providing the retirement protection, as such, the employees of private sectors were not bind to the pension system but only to the protection of PA or CSSA whenever necessary at their retirement age.

Political Feasibility on the Retirement Policy Development in Hong Kong

In addition, May (2005) illustrated that the creation of a policy map by the identification of the policy varieties, the potential policy provisions of each variety and to mark the positions of the concerned groups on each of

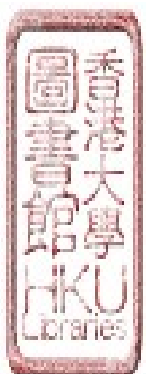


the policy provisions. Different support and resistance could be seen in different political circumstances.

Before talking about the “universal retirement protection”, MPF must be discussed. Initially when the MPF scheme was introduced, HK people had much reservation about the effectiveness of such scheme. They generally found that MPF could not preserve the capital and calculate their returns due to fluctuation in investment market with high management fees. Moreover, the employees were really dissatisfied with the offset arrangement so that the employers could save some retirement provisions for the employees eventually. MPF could not provide effective and predictable retirement protection.

Another big issue for May’s (2013) theory was the concept of a policy regime. There were two different approaches to look at the regime, with descriptive and analytic lens. May (2013) suggested the lens provided by regime perspectives could help the policymaker to understand these considerations.

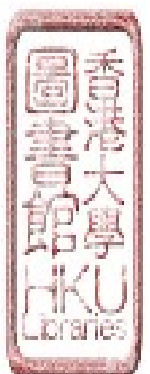
As mentioned earlier, the conceptual map was constructed by its



descriptive lens to address policy problems. On the other hand, the regime lens could assist the policy maker to determine the effect policies on the area of policy legitimacy, coherence and durability by setting up feedback process (May 2013).

Policy legitimacy was a “psychological property of an authority, institution or social arrangement that leads those connected to it” (May 2013), that should be “appropriate, proper and just”. There was a controversial issue for the method of election for the Chief Executive, because of only 689 votes were recorded, with the weak governance. It was legally required that the Chief Executive could not be a member from any political party, according Chief Executive Ordinance 2012.

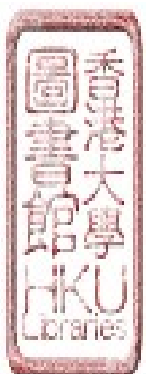
In 2013, the Policy Address, the Chief Executive CY Leung said, “.....There are concerns that universal retirement protection would impose a very heavy burden on the public coffers over time, and would be impractical without tax hikes. The other option based on tri- partite contribution from employers, employees and the government is equally controversial, involving issues, such as affordability and sustainability”



Apart from policy legitimacy, coherence and durability, the government needs to consider couples of scenarios to launch a policy. Under the Hong Kong current political circumstances, the structure and nature of Legislative Council play an important role on the retirement protection policy.

Political environment in Hong Kong - The Structure of the Legislative Council:

The LegCo has 70 seats from different political parties and some of them are independent. The geographic constituency consist of 35 seats of are elected by method of proportional representative election. The result is that both the pro-government and anti-government camps divided into more and more political parties competing legislative positions. The rest of 35 seats are from functional constituency elected in specific industries, such as education, agricultural and fisheries, etc. (LegCo Today, n.d.) Usually the voting are cling to the status quo or incremental. It is obvious that voting is usually pro-government as the pro-government camp is dominant. However, filibuster is gaining popularity and hinder the passing of motions.

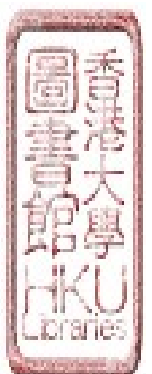


In order to impose the policy for the CE, the legislative members have to endorse the policy proposals and its financial budgeting. The policy makers had to get the support from both pro and pan camps to gain majority of votes or to solve the filibustering problem.

Under Article 107 of the Basic Law, the HKSAR government shall keep the expenditure within the limits of revenues. With the 108 of the Basic Law, the HKSAR government adopts a low tax policy to operate an “independent taxation system”. In line with the government’s philosophy of financial management, it is unlikely for the government to bear the financial burden of retirement protection. This proves that the government has the reluctance to develop the retirement protection.

Policy coherence is the consistency of actions in addressing a set of policy problems. Policy durability is talking how to sustain potential commitments over time.

The importance of policy regime was that the stronger policy regimes, the greater levels of policy legitimacy fostered. May (2013) said that the

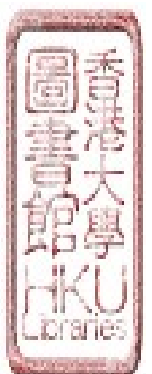


contours of a given regime could be depicted with respect to three forces, i.e. ideas, institutional arrangements and interests, that comprise a regime.

From the above perspectives, a basic issue in characterizing a policy regime is depicting the source and degree of interest support for and opposition to the relevant policies after policy enactment. The bases of support are mainly from the affected beneficiaries.

Political feasibility analysis: using Ideas as The Glue of a Policy Regime

From May (2013), Ideas - “affordable care”, “economic security”, “personal responsibility”, “zero tolerance” and the like - matter in fashioning a common understanding of policy purpose (see Blyth, 2003). Regarding government arrangements, ideas are important to provide direction for governing and serve as organizing principles. They shared commitments and understandings that served as integrative forces- “the glue of a policy regime” (May & Jochim, 2013).

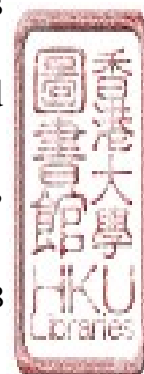


May (2013) mentioned policy problems are addressed by institutional arrangements structure authority, attention, information, flows, and relationships. Policies set the implementation structures and institutional designs. In Hong Kong, there have been couples of committees and forces formed to address the potential problems.

Political feasibility analysis: using Interest as Governing Capacity

May (2013) argued that interest support can help to establish the governing capacity of a regime. In Hong Kong, the politicians representing the majority seemed to be supportive to the retirement protection.

The living standard of elderly has been long considered as substandard, their saving and even earnings were not sufficient to sustain their quality of life, they may need to pick up empty aluminium cans and also rubbish papers so as to earn a living for them, which was known as elderly poverty. The government also noticed that the elderly poverty issue and had raised many suggestions in solving this issue. Although MPF has been served as the retirement protection in Hong Kong, it was believed that MPF was unsustainable in securing the living of the Hong Kong,

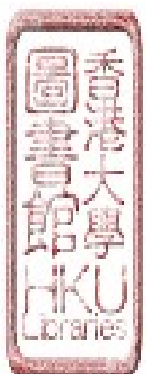


especially for those non-working population such as house- wives.

In Policy Address 2013, the CE CY Leung mentioned the Government would reinforce and enhance the existing three pillars, namely, private savings and family support, the social security system, and the MPF system.

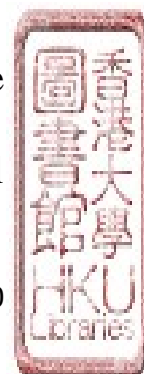
There were concerns that universal retirement protection would impose a very heavy burden on the public coffers over time, and would be impractical without tax hikes.

According to the “Hong Kong Poverty Situation Report 2012” released by the commission on Poverty, over 43% of the elderly population (aged 65 and above) were living below the poverty line. Moreover, the statistical figures from the Social Welfare Department indicated that the introduction of OALA in 2013, the number of recipients was around 420,000 showing the senior citizens over 65 had little assets and were in great need of livelihood support. It was time to review the stance of taking the OAA as a token of respect for the elderly.

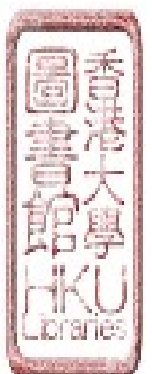


Concluding Comments

All in all, the changes of the types of governance in Hong Kong did affect the retirement protection strategies and policies formulation from time to time, especially in the early years. At the time of the invention of CPF and MPF, policy stream served as the dominant force in the strategy of retirement protection policy in relation to concern on the lack of second pillar (a mandatory, privately managed, fully funded contribution scheme) by the society. It was believed that the retirement protection for Hong Kong citizen had been controlled on the hand of the private sectors more than that of the government. Through the governance, Kington's theory and policy tools theory, the development of retirement protection in Hong Kong has been analysed. With reference to Kington's theory, the genuine needs of retirement protection had been identified and different retirement protection policies had been advocated over the years. In the past few decades, the choice of retirement protection policy was just depended on the mode of governance which also played a part in the political influencing for the policy in Hong Kong. Nevertheless, the change in the political atmosphere of Hong Kong in recent years, as well



as the controversy on the effectiveness of the MPF as the retirement protection strategy for Hong Kong citizen, the discussion of universal retirement protection proposal has been served as a political issue for different political parties and even in the policy address of the Chief Executive of Hong Kong. In this regard, the political stream was thus influencing the coming retirement policy in Hong Kong, which would be discussed in the coming chapter.



Chapter 5 – Analysis of Current Developments:

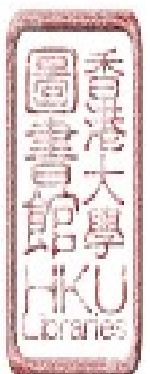
The Demo-Grant Idea

Introduction

The population of Hong Kong is expected to age rapidly. The percentage of elderly people aged 65 or above in the population is projected to rise from 14 per cent in 2012 to 32 per cent in 2041. The labour force is expected to start shrinking in 2018, and would only have mild increases in the mid-2030s. The overall dependency ratio, for young and elderly combined, will rise from 355 dependent persons per 1 000 working age persons in 2012 to 712 per 1 000 by 2041.

The urgency of retirement system reform and the preposition of the demo-grant idea

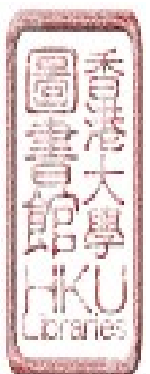
On top of the aging problem, the old age poverty problem had aroused concern from social groups and political party when they saw some of the elderly people in Hong Kong lived in extreme poverty in recent years. It



is therefore an imminent problem that the government should be solved by implementing a new retirement protection policy. They reckoned CSSA, Old Age Allowance and Old Age Living Allowance have not been able to adequately address the social needs. Many middle-class people also face the same problem because of longevity risks as a result of medical advancement and social conditions of widening rich-poor gap, spiraling property prices, inflation and difficulties for families to provide support. The problem was worsened as Hong Kong is aging at a faster rate than many developed societies.

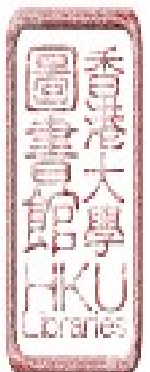
The chief executive had stated in his campaign manifesto and Policy Address in 2013 (HKSAR 2013) that “Regarding retirement protection, I suggest in my Manifesto that we should study the impact of an ageing population on our public finance, and plan ahead to deal with the issue in a timely manner. The Government will reinforce and enhance the existing three pillars. We are also aware of views in favor of the introduction of universal retirement protection.”

According to Abraham Maslow’s theory of hierarchy of needs (Maslow 1943), as cited by Burger and Youkeles (2004), the desire for a shelter is



a basic physiological need for all human beings. However, the property market in Hong Kong has become unreachable price for many working class or even middle class families. Many of them have either spent a large proportion for rent or paying the mortgage, which left little in their personal saving and not able to support their retirement life by their own saving. At the same time, Hong Kong's welfare system is still enduring huge pressure because of many internal and external factors like globalisation, local economic transformation, aging population and the increase margin between the rich and poor (WONG, 2008).

Commissioned by the government in 2013, Professor Nelson Chow Wing-sun and his team spent a year making detailed calculations on six proposals of retirement protection. The report suggested a demo-grant of HK\$3,000 a month for everyone aged 65 and over. This demo-grant is supported by an introduction of old-age tax (up to 2.5 percent). Professor Chow's demo-grant idea is based on the analysis of the current Hong Kong retirement policy against the World Bank's 5 pillar model (World Bank, 2005), he analysed the existing policy according to the criteria proposed by the World Bank, ie Adequacy, Sustainability, Affordability



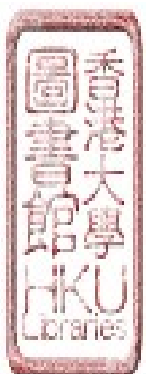
and Robustness. He recommends the demo-grant idea based on the fact that Hong Kong currently has no Pillar one retirement protection and his idea can fill the gaps within the model. The government's stance is "open mind on the various propositions and recommendations" though it revealed it is not optimistic a consensus on retirement protection financing arrangements can be reached. (LAU, 2014). Even though there are special meeting being held in the Legislative Council, there is no consensus even on whether to further evaluate this proposal.

In the Policy Address 2015 (HKSAR 2015), Chief Executive had announced that 50 billions to improve retirement policy and Commission on Poverty would discuss the subject matter and map out a timetable on taking forward the matter in a pragmatic manner.

From Governance Perspective

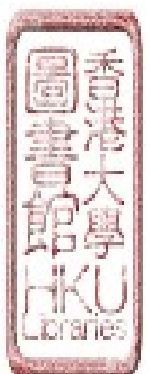
Impact of the Change in the Mode of Governance

Although the mode of governance changed to a more market type instead of hierarchical from time to time, the retirement protection policies had



not been changed for decades. When the time of the Mandatory Provident Fund (MPF) Scheme had been developed, it showed a shift in the mode of governance from interventionist to regulated self-governance. The MPF scheme was operated under the law, for instance, it implied that the participation of other stakeholders of the society should base on the institutionalized procedures. The private sectors such as the banks and insurance company might play a role in the policy-making and implementation. Apparently, MPF scheme was seen as strategies from a regulated self-governance, it had been criticized for years on the government's degree of regulation on those private sectors, furthermore, the government had been commented as protecting the benefit of the private sectors instead of securing the retirement protection of the Hong Kong citizen.

At the same time, due to the high administrative cost and poor performance of the MPF, citizen in Hong Kong had considered that MPF was not a secure retirement protection. The mode of governance for the retirement protection scheme had deemed necessary to change from a rather self-governance to a more interventionist governance as discussed



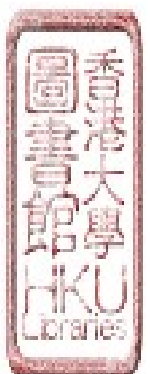
in the society. The general expectation of Hong Kong citizen was to develop a more secure source of benefit when they had reached the retirement age, as such, the government had been considered as the most appropriate agency to bear the responsibility. A drive was thus generated from the public to shift the retirement protection strategies from the market type to the hierarchical type.

From the Three Streams Perspective

Problem issues

According to Prof. Nelson Chow Wing-sun's research, the coming 10 years will be the peak retirement period for "post-war babies" but their provident fund entitlements will not exceed HK\$500,000. It was proposed that the government should implement a new retirement policy which issues a retirement pension of HK\$3,000 a month for everyone, or so-called demo-grant.

By establishing the demo-grant, the government should inject a one-off sum of HK\$50 billion which is not a problem for current government



budget but there will be different views on whether HK\$50 billion should be spent on retirement protection. Also, the demo-grant will be financed by a payroll old-age tax of up to 2.5 percent and the implement of new tax item will not be an easy item for the legislative council.

Besides, there is a projection that the demo-grant scheme would first see a deficit of HK\$800 million by 2026. By then, the scheme's ending balance would be HK\$156.5 billion, dipping further to HK\$13.5 billion in 2041 and going into negative territory the following year. The sustainability of the demo-grant scheme is also a question.

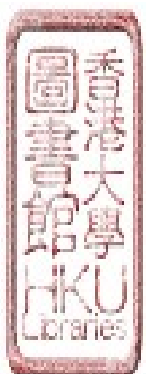
Political issues

From Professor Nelson Chow's the research report on future development retirement protection in Hong Kong. They are totally six options for protection from three categories (CHOW, 2014).

Category I - Universal, uniform amount and non-means tested

Category II - Multi-tiered retirement livelihood protection

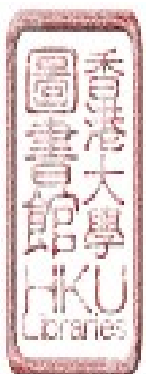
Category III - Annuity schemes



From May's (2013) theory, it analyzed various combination of different multiple laws, rules and administrative actions. Options of category were similar but varied in implementation details and actual operation and practice. In selecting the options, Chow's team looked for difference in content and predict which population group will propose the options.

From the several options projected, May's mapping can predict how the interest groups will react on each of the policy provisions of each varieties. May's political feasibility idea serve to map the support and opposition to the future retirement protection plan in the context of the political system in Hong Kong.

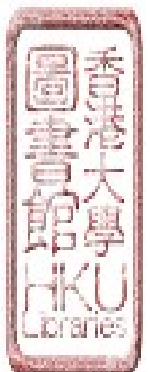
Political stream is composed of such things as public mood, pressure group campaigns, election results, partisans and so on in the society (Kingdon, 1984). Any changes in political stream will affect greatly on policy agenda. Bargaining will govern consensus building in the political stream. For universal retirement protection, the political environment is crucial. Government's participation needs to serve the public mood. One of the three forces, namely idea, comprising a regime under the May's contours with respect to constellation. Regarding government



arrangements, ideas are important to provide direction for governing and serve as organizing principles. They shared commitments and understandings that served as integrative forces- “the glue of a policy regime” (May & Jochim, 2013).

Elected politicians judge their constituents’ mood to influence their tendency to support or oppose the policy accordingly. On the other side, the non-elected officials or functional based politicians also tend to sense the public mood from other politicians only. Consensus and conflict will build political environment and affect the policy making in a great extent.

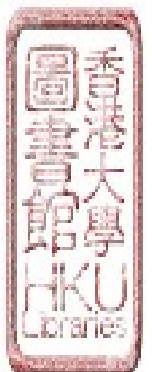
Political development is indispensable to social welfare development. Political participation and / or through election are direct way to strive for improvement in social welfare system. Some perceive democracy will be even more effective in affecting social welfare development. To formulate a satisfactory retirement protection policy, Hong Kong went through a really long road to MPF. The MPF system had also brought a great leap in the development of financial infrastructure. For government, whether the purpose was to protect the elderly from poverty or promoting the economic development was being questioned.



Policy issues

Universal retirement protection requires resources from the government. Raising profit tax, tax rate on goods, personal salaries tax or even company profits tax should be considered. At that time, the business sector will increase their operational costs and eventually weaken the Hong Kong's competitiveness.

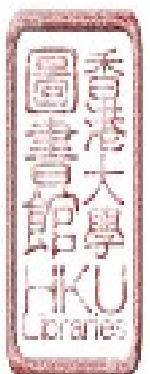
As mentioned earlier, the number of votes is the main concern for politicians. In order to attract the government's attention on the society's voice on retirement protection reform, 5 different political / concerned groups had submit proposals, expressing their views on the universal retirement protection, to the Sub-committee on Retirement Protection in Lego (Legislative Council Archives of Hong Kong Special Administrative Region. 2011). Every proposal had its pros and cons ideas and different parties have their own concerns for the election oriented based. The current subcommittee on retirement protection and the panel on Welfare Services are official extensions of Lego with legal status, to effectively communicate with all members of the council through means of debates, questions, and so on. Making social change involves



mobilizing the public, therefore forces to influence the Lego with the use of election ballots, is critical for the retirement protection. The regime has the contentious legitimacy because of the method of election for our Chief Executive with the “689” votes.

The weak governance of CE for the method of election is controversial and in doubt. The allocation and composition of the Lego members from different political parties, geographic and functional constituencies respectively, are crucial. The policymakers need to get the support from the pro and pan camps in the Lego. With the Basic Law, the Hong Kong government operates an independent taxation system and it is unlikely for the government to bear the financial burdens from the retirement plan to show its reluctance to develop the plan.

With the implement of new tax item and request of HK\$50 billion from the government, there have been many opposition from different interested group or political parties. The Hong Kong General Chamber of Commerce opposes extra taxes on businesses to fund the scheme, saying it would adversely affect small and medium enterprises. The Federation of Hong Kong Industries is highly skeptical about the financial

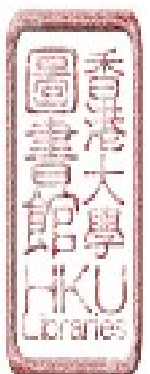


sustainability and fairness of a universal demo-grant. Accountancy-sector lawmaker Kenneth Leung Kai-cheong said the extra payroll old-age tax would trigger opposing opinions from the middle class and business sectors.

From the Policy Tools Perspective

According to McDonnell & Elmore (1987) “how the policy instrument is chosen depend on the way that policymaker defines a problem, the resources the government has and constraints from the environment.” Regarding resources and constraints, McDonnell & Elmore (1987) had identified six significant ones affecting policy choices, that is institutional context, governmental capacity, fiscal resources, political support or opposition, information, and past policy choices.

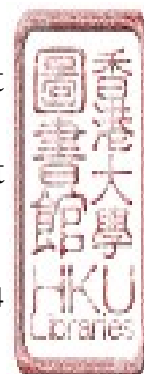
In previous paragraphs, the problem gave rise to the increasing demand of universal retirement protection was discussed. Hence, the below will be focus on the five significant resources from government and constraints from the environment that affect the shaping of the policy and whether it will be chosen. The remaining one, “political support and



opposition” will be further discussed together with Kinston’s “Political” stream and May’s political mapping later.

Institutional context refers to “allocation of formal and informal authority among policy actors, and the structure and function of existing agencies”.

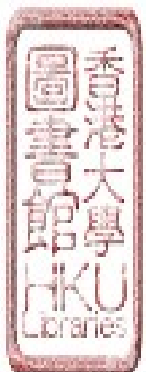
Regarding formal authority, the government was the authority to devise the policy and the Legislative Council was the authority to enact relevant laws and approve budget, taxations and public expenditure. Depends on the policy raised by the government, the Legislative Council might have different extent of support and might hinder the policy process. The political environment would also affect how Legislative Councilor response to the proposal. The informal authority could be the stakeholders of a policy, e.g. members of public, voters, employers & employees, small and medium enterprise, finance sector benefited by MPF, concern groups etc, these are the stakeholders of the retirement protection policy. Their opinion or even objection will affect the government and Legislative Council in the policy process. In previous years, stakeholders were able to arouse public concern on different government policies and in some occasions made the government



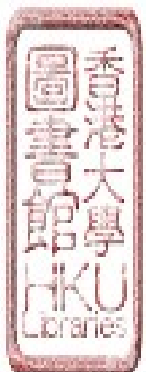
withdraw her proposals. These stakeholders' concerns on retirement protection were mainly focused on the expenditure of the government, any shift of burden on them, e.g. taxation, and the effectiveness of the policy. Professor Chow's proposal on demo-grant had acknowledged most of the concerns from the stakeholders, though not all of them solved completely. This includes the contribution required from employers and employees were set at a more reasonable level when compare with some other proposal from political parties and concern groups.

Governmental capacity means the “ability of initiating level to implement a policy and the ability to meet the policy's retirement.” For retirement protection policy, the experience of MPF had showed the government would be capable to implement similar policy. MPF is a mandate type of policy and hence there is high level of compliance. For policies establishing universal retirement protection, regulation will also likely be adopted again.

Fiscal resource is one of the main concern and obstacle to implement a new policy to establish universal retirement protection. It is difficult for the government to take up sole financial responsibility in retirement

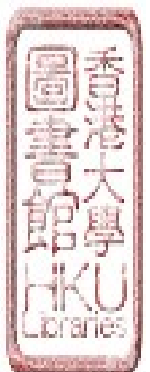


protection and many stakeholders oppose the government to take up too much burden which violate the principle of “managing public finance prudently” that all along been adopted. For universal retirement protection schemes, it can not be withdrawn once implemented. Hence, it is important for its sustainability, affordability and robustness being assessed which had been addressed by Professor CHOW’s research though not solved. His proposal has suggested Government is to put one-off fund of 50 billion as the start up fund which was in the capability of the government as Chief Executive had mentioned to invest 50 billions for retirement protection. For sustainability, his proposal would use up soon after 2041 and he asked for further research concerning this, this made people doubt on the proposal. For affordability, although the contribution required from employer and employee are more reasonable than other proposals, some root-class people who had not earned enough for the living would still have great difficulty in this new taxation. Regarding robustness and sensitivity, it was believed the members of public and the government would be less optimistic as Professor CHOW after seeing the example set by Greece – as a welfare state with good retirement protection – was demonstrating the nightmare of a welfare



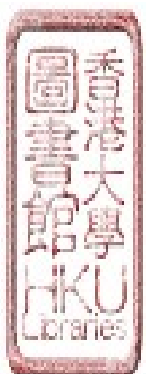
state. Serious aging of population and increasing unemployment rate put a huge burden on Greece when it was in its debt crisis. The pension that citizen was entitled was forced to be cut and still under great pressure from other Europe countries for further cut. While the elderly who had relied and trusted on this protection, they were no longer protected. The same may happen to Hong Kong as crisis can happen anytime.

Information – the World Bank Framework, overseas examples and the research done by Professor CHOW had provided example for policy makers. This is the political intelligence that required in the policy process. The government will also assess its capacity to implement and probable response to various instruments which was called the strategic information. For demo grant, it can be done through mandate which is the easiest way to ensure compliance and Professor CHOW had raised that the levying of the payroll old age tax may be done through existing MPF contribution system thus minimize administrative fees. The analytical information involved the technical requirements of various instruments and which are likely to work under different conditions. The research of Professor CHOW had conducted adequacy, sustainability,



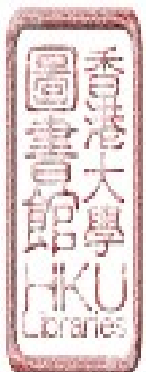
affordability, robustness/sensitivity test, though some issues had yet to be solved.

Finally, the resources as well as the constraint from past policy choices. According to McDonnell and Elmore (1987), it is the cumulative effects of past policy choices that will shape the selection of policy instruments. In the past, people had rejected pension fund / demo grant for a number of occasions. It was raised that it was unfair to require everyone to put their funds in items of a given risk level. There was also likelihood that people demand the government to generate good return on the fund. It also gave false hope that people could rely sole on that particular scheme. In 1992, the opponent's argument on Old Age Pension Scheme was applicable to the current demo grant proposal, including the policy mixed up the concept of social welfare and retirement protection, it shifted the burden of retirement protection to society, it is unfair that the grant received was not related to the amount of contribution made and the grant is inadequate for the poor and superfluous for the rich. The past policy choices could also provide resources. The MPF scheme was effective in its compliance and also incremental modification to reach its goal. The



demo grant proposal could use similar legislation and strategy. Also the levying of the payroll can be done through existing MPF contribution system.

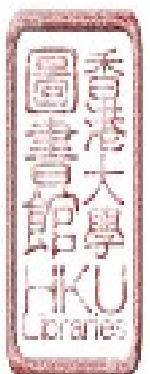
The policy of Demo-grant is an interactive approach adopting elements of ‘Mandates’, ‘Inducements’, ‘Capacity-building’ and ‘System-changing’ for the effect of compliance, production, capacity, or authority. Firstly, the demo-grant policy is a “Mandate” type of policy using regulation to ensure fullest compliance from society like the way MPF was implemented. Secondly, the demo-grant policy proposed by Professor CHOW involves the government to put in 50 billions as initial funding. The initial funding from government is perceived as essential procedure in Professor CHOW’s proposal to supplement the contribution made by employers and employees to make the system work. This transfer of money to agencies in return for certain performance is “Inducement”. Thirdly, the fundamental failure of citizens being fully prepared for their retirement through private saving, family support and other retirement protection measures had urged a “Capacity-building” element into the coming policy. The demo-grant policy is resolving the



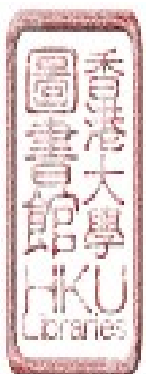
problem brought by aging population through lighten the burden to support the aged from the future generation and future government by forcing the current population to take up the responsibility. This longer-term benefits from demo-grant policy is also regard as important. Lastly, the responsibility of retirement protection was further transferred to the government with the demo-grant policy. The monitoring and investment on the fund was also proposed to be controlled by the government instead of members of public themselves or private sector like MPF. This was clearly stemmed from the inefficiency of members of public to prepare for retirement and also private sector in producing desired result in managing MPF.

Concluding Comments

With reference to the World Bank's pillar and evaluation criteria, Professor Chow analyzed scientifically the various proposal on Hong Kong's retirement policy reforms by different political parties / organization. The demo-grant idea proposed by Professor Chow seems to be able to address the inadequacy of Hong Kong's retirement policy, in which it is in the Pillar 1 area. However, as the above paragraphs showed



that policy proposal raised by Professor CHOW was not ideal as there were also issues pending to be discussed and solved. More importantly, with the current diverse political environment, there was yet a consensus from the society to support universal retirement scheme or this proposal; hence the government is lacking the will to put this issue, whether the demo-grant or other options proposal by various parties, the policy agenda. In the below paragraphs, it is aim to provide some recommendation by reference to the successful overseas example and determine if their experience can be applicable to Hong Kong's situation.

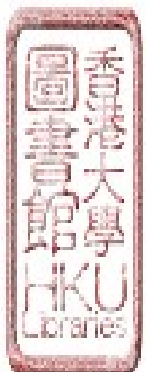


Chapter 6 – Conclusions

Introduction

With the aid of different theories that provided alternative dimensions in the development of retirement protection policy in Hong Kong from the previous chapters, the political dynamics apparently caused significant influence in the development of the aforesaid policy. In view of such phenomenon, before the conclusion for this capstone project could be made, a comparison with other country would be deemed necessary to have a wider view for this issue. Singapore, a country that the policy choice was largely influenced by political dynamic, would be taken for an example for comparing Hong Kong's situation.

Singapore and Hong Kong has shared many similarities, in which it makes it an ideal comparison in this study. Apart from they are both major metropolitan in Asia with diverse ethnicity, the general population in both places are quite educated and well aware of their civil rights. Historically both places were once the colonies of western countries, in



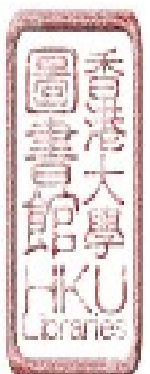
which it leads the culture becomes a “mix” of traditional and western values. Even though Hong Kong is not a sovereign state, the local government still has the autonomy to introduce policy related to local matters (such as the retirement protection policy) under the “One Country, Two Systems” principle as stipulated in the Basic Law.

Retirement Policy in Singapore

Central Provident Fund (CPF) system was established in 1955 for Singaporean. Every citizen in Singapore was required input certain amount of money into the scheme so as to served as the retirement benefits at their retirement age. When the time Singapore transformed as a sovereign state, the CPF was further developed and extends to meet the needs of Singaporean. For instance, the CPF in Singapore has been improved to a social security system that has been served for multipurpose, such as housing, medical, education and also the retirement needs of the citizen of Singapore. The former Prime Minister of Singapore, Mr Lee Kwan-Yew, had commented on the CPF in Singapore as below, *“it is fairer and sounder to have each generation pay for itself and each person save for his own person fund.”*



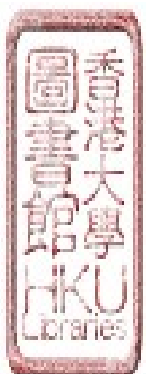
Moreover, the mode of governance in Singapore is an interventionist governance (Haque M. 2004), whom the government actively intervenes in the retirement policy formulation. As the Prime Minister who has been elected by the Singapore citizen played a dominant role in the political dynamic, the political influence would be significantly enough to create a policy window together with the existing problem and policy streams. As such, the window for the modification of retirement policies in Singapore was easily generated. In Hong Kong, it would be another story that not only for the retirement policy itself was lacking of flexibility and security for Hong Kong citizen when comparing with that of Singapore, but also to the fact that the Chief Executive had tried to dominate the political dynamic but in vain. The fail in the convergence of political dynamic in Hong Kong resulted in the fail in coming up with the consensus from the general public. Although the political dynamic in Singapore is not the same as Hong Kong, such as the way to manipulate the political environment to come up with a particular policy choice, the political stream has been proved to have major effect in the policy choice of both Singapore and Hong Kong especially on retirement policy. With



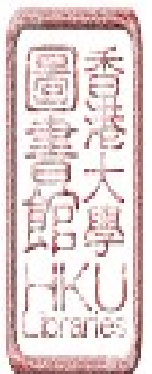
due regard to the political situation in Singapore, the political dynamic in Hong Kong as well as the different agenda presented by various political parties, for instance, the dominant force in the political dynamic of Hong Kong would definitely determine the future development of retirement policy in Hong Kong.

In HK, this politics stream is an important source of pension reform potential, due to an active civil society, policy engagement by academics, and a extremely free media. For example, the annual demonstration / protest on 4 June and other public demonstrations for expressing public dissent over a wide range of issues, including democracy, civil liberties and social concerns. On the other hand, in Singapore, restrictions on civil activism in Singapore are a constraint on the prospects for pension reform. No public protests can be seen on streets, no demonstrations at all. For sure, there are no pressure groups campaigning for reforms. Singapore probably can be regarded as an extreme case when political environment is absolutely favoring the government, in which it can introduce policy with minimal resistance.

Such luxury will probably not be enjoyed by the Hong Kong government.



However, this illustrates that the importance of gaining political support when the governments would like to introduce a new retirement policy, whether it is the demo grant idea or not. Unlike Singapore that the government is in a dominant position politically, the Hong Kong government does not share this luxury. In order to gain political support, Hong Kong government needs to build a healthy relationship with the political parties, regardless of whether it is pro-establishment or pro-democratic, on the topic of retirement protection, it is unlikely that any political parties will totally reject the idea, hence the government should be able to in a better position to reach a consensus with different parties. In addition, a throughout public consultation is also needed. All of these actions aim to build up the political assets of the government so that when the policy is introduced, it will face minimal resistance.



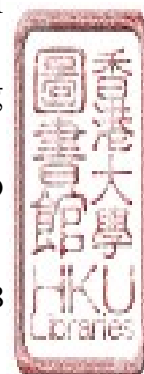
Overall Conclusion

This project examine Hong Kong's retirement policy development over the years by examining through the theory of Governance (Knill & Tosun 2012), 3 streams theory (Kingdon 1984) and Policy tool's (Elmore 1987) perspective. From the detailed analysis of the theory, it is shown that Political environment plays a crucial part in affecting all three aspects mentioned above. Political environment will affect the mode of Governance that the government choose to adopt that best fit to the situation so that it can rule with minimal resistance. In addition, when the government introduces a policy, whether the "policy window", as described by 3 stream theory, political environment plays an important part here as well. Furthermore, which policy tool that the government choose to employ when introducing a policy will also be affected by the political environment at that time. It can be concluded that political factor is worth studying as the focus when examining the development of Hong Kong's retirement policy.

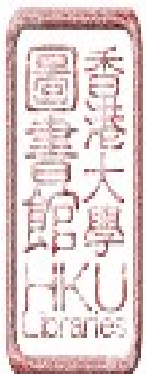
As World Bank's 5 pillar of retirement policy shows, there are numerous



number of options when introducing retirement policy. Over the years, Hong Kong government focusing on developing policy in other pillars and lack of concerns for pillar one. This is probably due to the mode of governance of the colonial government that lead to the policy more driven by the “problem” and “policy” streams when the policy window is opened and this subsequence led to the choices of policy tools as well. However, in the recent years, there is a shift in this balance in which the political forces/environment within the society starts to play a more significant role in the policy introduction and the governance mode seems to change significantly, especially since CY Leung has become the chief executive. In this political driven environment, this project analyze how the direction of the retirement policy will be changed and analyses how this would affect the most recent demo-grant proposal by Professor Chow. It is believed that whether this idea will be further investigated/implemented will be largely determined on the current political environment more than other factors, even more than the feasibility of the proposal itself. It is recommended that in this political environment, by contrasting the experience in Singapore, the Hong Kong government needs to seek the most political power in order to



successfully introduce any new retirement policy, that means including a throughout public consultation and seeking the support from both pro-establishment and pan democratic parties within the legislative council. However, this will take a great effort from the government and it is question whether the current government have the will to do so. If the political factor cannot be satisfied, it is highly doubtful that the policy window will be opened. This is a huge concern as retirement policy is a difficult issue and it requires a long time for the consensus to be reached, but the aging population problem within the society may not have the time to wait and this may create a lot of social problem that may hinder the governance of the current government.



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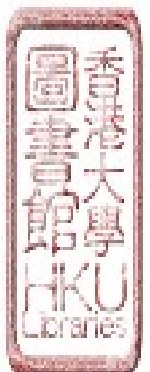
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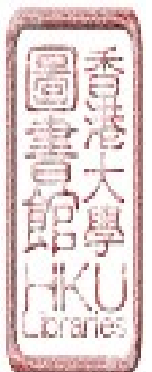
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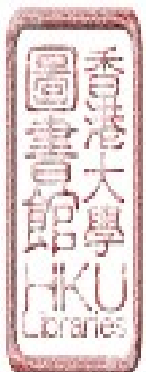
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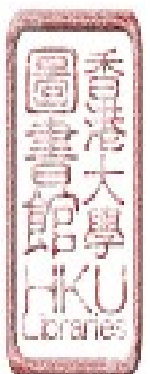
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