RESEARCH ON RETIREMENT PROTECTION AND RELATED SERVICES IN HONG KONG

MAY 2021

Survey on Retirement Readiness of Middle-income Group

CONTENTS

1 SUMMARY

Background and subjects

In 2017, following a fierce debate on retirement protection reforms, the Hong Kong government decided to adopt a three-pronged strategy for the city's future social security system: a more comprehensive social security system, improvements to the Mandatory Provident Fund (MPF) system, and encouraging more citizens to join voluntary pension schemes. Since then, the government has implemented a series of measures to improve social security. As a result, almost 50% of elderly citizens are now eligible for a monthly allowance of HK$3,715 (2020 figure, including Comprehensive Social Security Assistance (CSSA) and the Higher Old Age Living Allowance), with a smaller number eligible for a monthly allowance of HK$2,770 (Normal Old Age living Allowance). The government has also launched a public annuity scheme and two tax-deductible schemes to enable high-income earners to prepare better for retirement. In January 2020 the government announced ten new livelihood initiatives, including three initiatives to improve the livelihoods of pensioners: reforming the Old Age Living Allowance, expanding the HK$2 concessionary transport fare scheme, and paying MPF contributions for low-income individuals. However, due to the increased deficit caused by the Covid-19 pandemic, some of these initiatives have been postponed or made subject to a fiscal impact assessment[2].

Under the current system, social security provides a basic retirement income to low-income individuals (income group 1 for the purposes of this study), while higher-income earners (income group 2) rely on personal investments and voluntary pension schemes to fund their retirement. However, many middle-income earners (3rd income quartile) do not qualify for means-tested social security and do not have sufficient investments or savings to maintain a similar standard of living after retirement. In addition, many middle-income earners seem not to be interested in participating in any voluntary pension schemes. The concerns that this group of people have about retirement are often overlooked. By conducting a survey of individuals in the 3rd income quartile aged 50–59 (individuals with a monthly income of $18,000–$30,000 at the end of 2019, i.e. equivalent to or slightly above the median income), this study attempts to investigate the retirement readiness and plans, estimated local expenditure and standard of living of middle-income individuals, as well as solicit their views on the current Hong Kong retirement protection system and how it may be improved.

Objectives and research methods

The objectives of this research are to:

1) Understand the expenditure and spending habits of elderly households according to their actual living expenditure;
2) Examine the various schemes provided to retirees under the current Hong Kong's retirement protection system;
3) Comprehend the viewpoints of survey respondents with regard to retirement readiness, expectations and concerns, and collect feedback on how the pension system may be improved; and
4) Based on the results of the survey, provide recommendations on Hong Kong's pension system and services for the elderly, especially with regard to the retirement provision of individuals in the 3rd income quartile.

With regard to the first objective, the data, based on the 2014/15 Household Expenditure Survey conducted by the Census and Statistics Department, was used to analyse the expenditure and spending habits of elderly households.

For the second objective, the research team used OECD (Organisation for Economic Co-operation and Development) methods to calculate the pension entitlements and income replacement rate of each income group under the current pension system. The calculations were made using publicly available data from the middle of 2020 covering population, median income, and allowances, as well as some stated assumptions. This analysis enabled the team to investigate the retirement income and expenditure of the target group (individuals in the 3rd income quartile).

For the third objective, the research team used convenience sampling to conduct telephone and online questionnaires. A total of 222 individuals completed the questionnaire. Purposeful sampling was also used to conduct in-depth interviews with 20 respondents. The age and sex distribution of the sample was similar to the target group, but as the sample was not representative, the data is only of limited relevance. The purpose of the in-depth interviews was to obtain a deeper understanding of the respondents' circumstances. The results of these interviews can be cross-referenced with the results of the questionnaire. A large representative sample would be needed in order to obtain data that is more representative.

[1] In February 2021, the Higher Old Age Living Allowance and CSSA was increased to HK$3,819. The Normal Old Age Living Allowance was raised to HK$2,848.

[2] https://www.info.gov.hk/gia/general/202001/14/P2020011400586.htm

Results of research

Elderly household expenditure and retirement income/income replacement ratio

Based on data from the 2014/15 Household Expenditure Survey, the average monthly expenditure of middle-income elderly households was HK$12,000 per person, and HK$14,000 for single-person households. By 2020, we can assume that this figure had increased by around 10% . The largest household expenses were **1)** housing and utility costs, **2)** food, and **3)** health care. Food costs – especially groceries – were similar to the low-income group, while housing, utilities and health care expenditure were much higher, presumably because low-income households tend to live in public housing and use the public health care system. As most middle to high-income earners experience a decrease in income after retirement, many are only able to maintain the lifestyle of a low to middle-income household and therefore have a lower monthly expenditure. According to the 2014/15 Household Expenditure Survey, the average monthly expenditure of low to middle-income elderly households was HK$8,000 per person (or approximately HK$8,800 in 2020 terms). On average, the aforementioned expenses accounted for 90% of total expenditure.

Considering both social security benefits and MPF entitlements, the research team estimated that the income replacement rate for an individual in the 3rd income quartile who is not affected by the MPF offsetting policy and works for 40 years would be about 30%, an amount that is not sufficient to maintain their pre-retirement standard of living. The team also calculated that if an individual in the 3rd income quartile saved an additional 5% of their salary towards tax-deductible voluntary contributions, they would have 50% more in their MPF account by retirement – equivalent to HK$1.5 to HK$3 million in today's terms. Without considering other assets and savings, this would increase the income replacement rate to almost 50%. After accounting for public transport subsidies, health care vouchers and other benefits under pillar 4 of the Hong

Kong's retirement protection system, the income replacement rate increases to 55%, a figure which is much closer to the level required for maintaining pre-retirement standard of living[3].

According to the results of the research, most individuals in this group believed that they were insufficiently prepared for retirement, and wished to continue working. Their biggest concerns were housing and health care costs. Most respondents stated that the MPF would constitute an important part of their retirement income, but only a few believed that this would provide a sufficient level of income. Meanwhile, half of respondents claimed that the HK$2 concessionary transport fare scheme would provide a sufficient level of transportation expense coverager. A small number of the respondents had purchased tax-deductible investment products to fund their retirement. In January 2021, 45,200 people made MPF Tax Deductible Voluntary Contributions (TVC). As the research team did not have access to income data, it was not possible to determine how many of these people were from the 3rd income quartile.

However, as the individuals in this group do not have a large amount of spare cash, many prefer to spend their money in other ways, such as study, buy property, improve their standard of living or pay for weddings or other emergencies. For this reason, it is important to ensure that additional contributions are voluntary and designed in such a way as to encourage saving (e.g. via tax-deductible schemes). The recent decision to abolish the MPF offsetting mechanism and implement full portability of MPF benefits has increased market competition, lowered management fees and boosted performance, making voluntary contributions more attractive.

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[3] *It is generally accepted that a gross replacement rate of around 70% is needed to sustain a worker's pre-retirement standard of living. Middle to high-income earners require a replacement rate of 50–70% in order to maintain their standard of living (Waltzer, 2012). For middle-income earners with a mandatory pension scheme, the World Bank recommends a gross replacement rate of 42% of their 1-year pre-retirement earnings, and a net replacement rate (income after taxes and social insurance contributions) of 53% (World Bank, 1994).*

Questionnaire

Over 80% of respondents were born in Hong Kong, with a sex ratio of approximately 50:50. Around half of the respondents were owner-occupiers, either in public or private-sector housing. Approximately 60% of respondents had at least one child who lived in the same household or required care. In terms of their educational background, 70% of respondents finished their education at secondary school, with around 40% leaving school after year 4 or 5, and 30% after years 1–3 or 6–7.

Approximately 90% of respondents worked as employees. In terms of income, around one third of respondents reported an average monthly income of HK$18,000–20,999 from June to September 2019, and around one quarter reported an income of HK$27,000 to 30,000. The vast majority of respondents stated that they would rely on their MPF/ORSO savings to fund their retirement, while around 50% had their own investments or owned private property. Most respondents had no knowledge of or interest in private pensions and investment products (such as tax-deductible investment products and private pension plans) or overseas property.

When asked to rate the importance of various income sources and social services to their retirement, between 70 and 90% of respondents chose aspects such as savings, government-funded specialist and general out-patient clinics, the HK$2 concessionary transport fare scheme, health care vouchers, private property and the MPF/ORSO schemes. In contrast, private pensions and investment products were regarded as being less relevant, demonstrating the importance attached to government-funded pension entitlements and social services.

With the exception of the HK$2 concessionary transport fare scheme, less than half of respondents stated that they would be able to rely on the listed benefits and social services during retirement, reflecting their belief that they would not qualify for these benefits.

The vast majority of the respondents (86.5%) did not indicate when they plan to leave their current full-time job. Two-thirds stated that they would continue working for as long as possible. Only a few respondents were planning to fully retire.

A significant number of respondents were concerned about their financial circumstances and health after retirement (54% and 46% respectively). A small number of respondents were concerned about changes to their relationships with relatives and friends, and family members (17% and 9% respectively).

In-depth interviews

The majority of interview participants were women. Around 50% owned their own property, and most had children. The respondents planned to retire at different ages – more than half hoped to retire between 60 and 65, while some respondents had no plans to retire.

14 respondents stated that they planned to find part-time work after retirement. 6 respondents said that they would no longer work full-time, but had not yet decided whether to work part-time. In terms of retirement readiness, most respondents were planning to fund their retirement with their MPF and savings, whileother pension plans rarely became their options.

9 respondents stated that the current pension system would contribute more than half of their retirement income, while 9 people said that it would contribute less than half. 2 respondents stated that the current pension system would not help fund their retirement.

More than half of respondents said that they had not made adequate preparations for retirement. The respondents had different opinions on how to fund their retirement. Most hoped to be able to draw a stable return and income after retirement in order to fund their everyday living expenses. 8 respondents were wary about high-risk investments, while 3 respondents believed that savings were the best way to fund their retirement.

Most respondents believed that health care would be the largest expense after retirement – 17 respondents listed health care among the top 3 expenses, and 11 of these 17 respondents believed that health care would be their largest expense. After health care, the largest expenses were listed as housing and miscellaneous household goods.

In terms of expected savings, the respondents had very different goals. These ranged from HK$500,000 to HK$30 million, with most respondents aiming to save between HK$4 and HK$7 million.

Most respondents said they had an average or slightly higher than average standard of living before retirement, but after retirement they expected to have an average or slightly lower than average standard of living. Most planned to bridge the gap in income by reducing spending on clothing and food, cutting back on shopping or using savings.

Most respondents said that they were concerned about their retirement. Many worried about their health and an increase in medical bills. Others fretted about insufficient savings, the political situation, a deterioration in family relations and how long it would take to become accustomed to life after retirement. 3 respondents had not given any thought to how their lifestyle might change, and reported no concerns. The respondents' main concerns included their state of health, a change in financial circumstances, a deterioration in family relations and getting used to life after retirement.

The vast majority of the respondents said that the current retirement protection system is inadequate. They stated that some government benefits such as the Old Age Living Allowance and health care vouchers were not sufficient. In addition, the respondents said that the MPF does not provide universal coverage, and some stated that their MPF contributions would not be sufficient to fund their retirement.

When asked about what the government could do to improve the welfare of the elderly, the respondents expressed a desire for a better health care system. Some respondents stated that the government does not provide sufficient support to the elderly, and suggested that the government should allocate more resources to the elderly, including raising the Old Age Living Allowance, providing more homes for the elderly, and increasing the amount of health care vouchers. Some people also hoped that the government would increase funding for the pension system and ensure that retirement investment products are subject to stricter regulation and provide a better rate of return. As for the private market, the respondents suggested boosting the promotion of existing retirement products and lowering barriers for entry to allow more people to benefit.

2 RETIREMENT-ORIENTED FINANCIAL PLANNING AND EDUCATION

The research team proposes that the government to work with non-governmental organizations to improve community education with an aim at boosting awareness of retirement readiness, knowledge and skills among married and cohabiting couples and encouraging the younger generation and single individuals to assess their financial situation as early as possible and make a blueprint for their future retirement.

As most companies take their lead from the government, the research team suggests that the government to set an example by raising the retirement age for civil servants. In addition, employers are not currently required to make MPF contributions for employees aged 65 and over. The research team recommends that employers should continue to make contributions for these employees. These measures could be complemented by policies which facilitate the employment of the elderly, allowing them to continue to make a contribution to society and maintain part of their income in an appropriate working environment.

3 EMPLOYMENT OPPORTUNITIES FOR THE ELDERLY

RECOMMENDATIONS

The research team suggests to enhance Hong Kong's retirement protection system through addressing the following aspects:

1 KEY PILLARS OF RETIREMENT PROTECTION SYSTEM

1) Improve social security: for example, the government could relax the eligibility requirements for the Old Age Living Allowance, allowing anyone with assets less than a lower threshold, say HK$2 million, to claim the allowance after the age of 65 by a simple declaration.

2) Continue to improve the MPF schemes: continue to encourage MPF providers to launch more innovative funds with stable returns and lower fees, government provides MPF coverage for low-income individuals, recommend employers to make contributions to employees aged 65 and above, and encourage people in employment to make voluntary contributions for their family members.

3) Introduce incentives: suggest the government to provide more incentives for individuals in the 3rd income quartile in order to encourage them to plan better for their retirement. Participation in incentives should be monitored with policy adjustment accordingly.

4 HEALTH CARE, HOUSING AND WELL-BEING SUPPORT

For the elderly, the health and the cost of health care is the biggest concern about retirement. Illness and accidents are often unpreventable, but the government should continue to educate people on the importance of leading a healthy lifestyle, including exercise, a healthy diet, and mental well-being. This would help lower the risk of future illness and reduce the burden on health care services caused by an aging population. In addition, the government and other sectors of society could provide portable and convertible health insurance schemes for retirees to enjoy continued coverage after the policy holder retires or changes employer. The existing health care system will find it difficult to cope with a large increase in demand from a rapidly aging population. In order to allay these concerns, the research team suggests the government to advise people on how they plan future medical resources and services, including long-term care services. The government could consider working with the private health care sector to reduce waiting times for specialist treatment and ensure that the elderly obtain the care that they need. In addition, the government should use the latest technology to reduce waiting times and give patients quicker access to medicines.

The research team also found that housing and related expenses (including building maintenance costs) accounted for a large proportion of household expenditure in elderly households. The team therefore suggests simplifying loan application procedures and providing more support with housing maintenance costs, such as offering loans with a longer interest-free period for the elderly with financial emergencies. These measures would prevent the elderly from experiencing financial difficulties and allow them to enjoy a worry-free retirement.

The government and other sectors of society could also provide more comprehensive support for retirees and build a stronger social support network that encourages the elderly to protect their physical and mental health and well-being and maintain a positive attitude and sense of self-worth.

5 GUANGDONG-HONG KONG-MACAO GREATER BAY AREA

The 2014/15 Household Expenditure Survey does not include overseas spending. Nevertheless, based on the data obtained from the questionnaire, with the exception of travel (15%), over 80% of respondents planned to do most of their shopping, health check-ups, medical care and dental treatment in Hong Kong. However, as the living circle within the Greater Bay Area becomes more integrated, Hong Kongers are likely to travel to Mainland China more often, while Hong Kong is expecting to see an increase in the number of people from other areas in the region purchasing retirement products and services. The research team suggests that the government should take steps to protect the consumer rights of Hong Kong's elderly, both in Hong Kong and overseas. In addition, the government should consider how to position and regulate retirement products and services across the Greater Bay Area such that it can create a win-win situation and virtuous circle. For a more detailed description of these recommendations, refer to Chapter 5.

2

BACKGROUND, DEFINITIONS AND PURPOSE

encouraging voluntary contributions. These measures also included the introduction of the Higher Old Age Living Allowance, abolishing the policy of allowing employers to offset MPF contributions against Long Service Payments / Severance Payments, the launch of a new eMPF service to reduce costs, encouraging citizens to participate in a pillar 3 voluntary pension scheme,including viatax-deductible voluntary contributions or by purchasing a deferred annuity, and the introduction of a lifetime public annuity scheme.

The research team divided working individuals into four groups of equal size based on their income (approximately 820,000 people per group, not including foreign domestic helpers). The first and second groups have an income below the median. The income of the third group is at or just above the median, while the people in the fourth group are in the top 25% of earners. People in the first and second groups have less stable jobs and are more likely to have been affected by the Long Service Payments / Severance Payments offsetting policy. As a result, under the current pension system, the MPF is not sufficient to fund the retirement of these individuals, and if the other members of their household are not in employment, they are likely to be eligible for social security payments after retirement.

High-income earners, meanwhile, can use personal savings and voluntary pension schemes to fund their retirement. However, many middle-income earners do not qualify for means-tested social security and do not have sufficient investments or savings to maintain a similar standard of living after retirement. In addition, many middle-income earners seem not to be interested in participating in a voluntary pension scheme. The concerns that this group of people have regarding retirement are often overlooked. By conducting a survey of individuals in the 3rd income quartile aged 50–59, this study attempts to investigate the retirement readiness and plans of middle-income individuals, their estimated local expenditure and standard of living after retirement, and their views on the current Hong Kong retirement protection system and how it may be improved.

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[4] Based on data provided by the Secretary for Labour and Welfare Law Chi-Kwong on 12 March 2021.
[5] https://www.budget.gov.hk/2021/eng/pdf/head120.pdf
[6] Data provided by MPFA
[7] OECD (2021), Pension spending (indicator). doi: 10.1787/a041f4ef-en (Accessed on 16 March 2021)

Background of research

In 2005, the World Bank proposed a five-pillar pension model. Hong Kong adopted several specific proposals from the model, primarily pillar 0 and pillar 2. Pillar 0 consists of basic social security, while pillar 2 consists of occupational pension schemes such as the civil service pension scheme, MPF and occupational retirement schemes (ORSO schemes). In 2021/22, social security for elderly residents is expected to cost approximately HK$50 billion[4], while pension expenditure is expected to exceed HK$47 billion[5]. In addition, in 2020, HK$13.8 billion of mandatory contributions were withdrawn due to retirement or early retirement[6]. Together, this spending is expected to account for 3.7% of GDP in 2021/22. This is significantly lower than public retirement expenditure in other developed economies (87.7% on average in 2019).[7]

Following several years of debate, the government decided against the introduction of a universal pension system (pillar 1), and instead announced a series of measures to improve the existing retirement protection system, including strengthening social security, reforming the MPF scheme and

Purpose of research

The purpose of this research is to:

1) Investigate the expenditure and spending habits of elderly households according to their actual living expenditure;
2) Discuss the various schemes provided to retirees under the current Hong Kong retirement protection system;
3) Investigate the viewpoints of respondents with regard to retirement readiness, expectations and concerns, and collect feedback on how the pension system may be improved; and
4) Based on the results of the survey, provide recommendations on Hong Kong's pension system and services for the elderly, especially with regard to the retirement provision of individuals in the 3rd income quartile.

Research subjects

The respondents were aged between 50–59 on or before the date of the questionnaire and employed in Hong Kong with an average monthly salary of HK$18,000 to HK$30,000 between June and December 2019 (including salary, bonuses, double pay and commission). For the purposes of this study, "employed" means paid full or part-time employment or self-employment.

3 RESEARCH METHODS

Different methods were used to investigate the four purposes of the study, including analysis of existing data, questionnaires and in-depth interviews.

Description of each research method

1) Data from the 2014/15 Household Expenditure Survey was used to analyse the expenditure of elderly households in different income brackets.

2) The OECD method was then used to calculate and analyse replacement ratios. This metric expresses estimated retirement income from the various pension pillars (i.e. the five pillars defined by the World Bank) as a percentage of pre-retirement income, and can be used to evaluate the retirement income of individuals in each income bracket. The income brackets were determined based on multiples of the median monthly income, and it was assumed that the income of the individuals in each bracket would remain the same throughout their career. The respondents (individuals with an income of 0.75 times the median) were compared with other income brackets in order to determine the amount of income that they would receive under each pillar of the current pension system and calculate the replacement rate.

3) The research team commissioned a survey company to assist with the questionnaire, which was sent to individuals known to the research institute and research team, as well as to a list of individuals provided by researchers at the Hong Kong Retirement Schemes Association. Quantitative data was collected using paper and online questionnaires, which enabled the team to investigate the respondents' readiness, expectations and plans for retirement and how their expenditure might change. The research team also conducted street interviews in Kwun Tong, where it recruited one additional respondent. The questionnaire was therefore completed by a total of 222 individuals.

4) In addition, the research team conducted qualitative research by organising in-depth interviews with 20 respondents. The purpose of the interviews was to find out more about the respondents' readiness, expectations and plans for their future retirement and solicit their views on Hong Kong's pensions system and how it could be improved.

A detailed description of the research methods is provided in each section of the findings.

Time of study

The study was conducted from 1 June to 18 November 2020.

Limitations of the study

The data from the 2014/15 Household Expenditure Survey used in this study was provided by the Census and Statistics Department. With an effective sample size of 6,812 households, it is Hong Kong's only representative study on household expenditure, and it's data reflects the prevailing circumstances in Hong Kong's households. The replacement rates were calculated using publicly available data from mid-2020 on population, median income and the amount of various subsidies. The assumptions used during the calculations are listed clearly, and the resulting replacement rates reflect the actual circumstances on the basis of these assumptions. This analysis enabled the research team to investigate the future retirement income and expenditure of the target group.
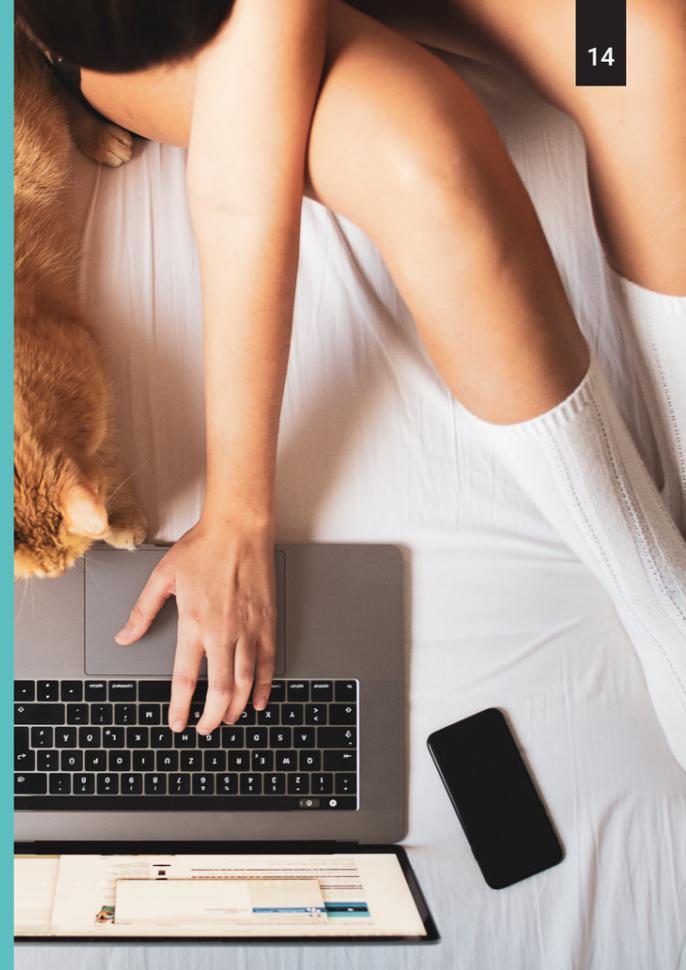
The data used in this study was collected anonymously, and team was not able to verify the authenticity of each respondent's answers. However, these arrangements allowed the respondents to provide information in confidence, increasing the likelihood of obtaining reliable data. In addition, due to objective circumstances and limited capacity, a convenience sample (rather than a random sample) was used to conduct the questionnaire-based survey and interviews. Although the age and sex distribution of the sample is similar to the target group, it is not a representative sample and therefore the results of this study are only of limited relevance. The purpose of the in-depth interviews was to obtain a deeper understanding of the respondent's circumstances. The results of these interviews can be cross-referenced with the results of the questionnaire. A large representative sample would be needed in order to obtain data that is more representative. For the in-depth interviews, the team was not able to interview current or former civil servants who were eligible for the civil service pension and who met the age and average monthly salary requirements listed in section 2. Due to these limitations, this study was not able to examine how the retirement readiness, quality of life and mental well-being of civil servants with the pension after retirement compared with other workers.

4 RESULTS OF RESEARCH

2014/15 Household Expenditure Survey

Background and source of data

This part of the study aimed to investigate the post-retirement expenditure of each income group and whether this corresponded to the estimated expenditure of individuals who were approaching retirement. The data on expenditure was collected by the Census and Statistics Department as part of the Household Expenditure Survey. The latest data was obtained during the 2014/15 survey. Based on this data, the research team selected households with a high proportion of elderly residents in order to analyse their expenditure. Adjusted for inflation, the 2020 expenditure figures would be approximately 20% higher than the figures reported in the 2014/15 survey.

The Household Expenditure Survey is a government survey conducted once every 5 years, and is used to update the weightings for compiling the consumer price index (CPIs). These weightings are used for calculating the monthly CPI. The data from the latest survey was collected between October 2014 and September 2015, and the effective sample size was 6,812 households[8]. The survey does not include households in receipt of Comprehensive Social Security Assistance (CSSA), non-land-based households, individuals living in institutional households or dormitories, or households who left Hong Kong during the survey period. Expenditure is calculated on a per-household basis. Individuals who live in the same quarters but do not share daily necessities are regarded as separate households. In addition to entire household expenditure,

the survey also includes data on individual expenditure. For this study, the research team first obtained 20% of the sample from the Census and Statistics Department in order to conduct initial analysis. The team subsequently requested the entire sample and produced a list of required data for use this in report, subject to approval from the Census and Statistics Department. Some of the data in the list related to a very small number of households or individuals, and the Census and Statistics Department did not provide the corresponding data.

The 2014/15 Household Expenditure Survey collected data about expenditure on products and services, which were divided into 94 categories. For the purposes of the survey, household expenditure did not include business expenses, investments, MPF/ORSO fund contributions, personal income tax, charitable donations, gifts to relatives and friends and overseas expenditure.

[8] *2014/15 Household Expenditure Survey and the Rebasing of the Consumer Price Indices (p. 7).*
https://www.statistics.gov.hk/pub/B10600082015XXXXB0100.pdf

Methodology

For the purposes of this study, the households were divided into four groups based on their income:

1) Low-income households: Households whose income is less than half the median income (i.e. households at or below the poverty line).
2) Lower middle-income households: Households whose income is higher than the poverty line but lower than the median income.
3) Upper middle-income households: Households whose income places them in the third quartile (50−75th percentile).
4) High-income households: Households in the top 25% of the income distribution.

Low-income households: These households only accounted for 13.9% (Table 1) of the research sample. As the Household Expenditure Survey does not include households in receipt of Comprehensive Social Security Assistance (CSSA) (approximately 8.5% of Hong Kong households), the low-income group does not include CSSA recipients, but still represents households living below the poverty line.

Table 1 − Household size and income group

Household size	Income group					
	Low income	Lower middle-income	Upper middle-income	High-income		Total
1	9.9%	25.5%	29.6%	35.0%		100%
2	15.8%	26.8%	29.4%	28.0%		100%
3	12.9%	36.4%	24.3%	26.4%		100%
4	15.5%	30.4%	27.2%	26.9%		100%
5	14.1%	31.8%	31.2%	23.0%		100%
6 or more	9.8%	44.2%	22.3%	23.8%		100%
Total	**13.9%**	**31.0%**	**27.4%**	**27.6%**		**100%**

Note: 1) The Household Expenditure Survey is conducted once every 5 years to collect up-to-date information on the expenditure patterns of Hong Kong households and update the expenditure weightings of the Consumer Price Index (CPI) series. The household income data collected for this survey is primarily used to verify the expenditure data and should be used with caution.
2) Due to rounding, numbers and percentages presented in this report may not add up precisely to the totals provided.
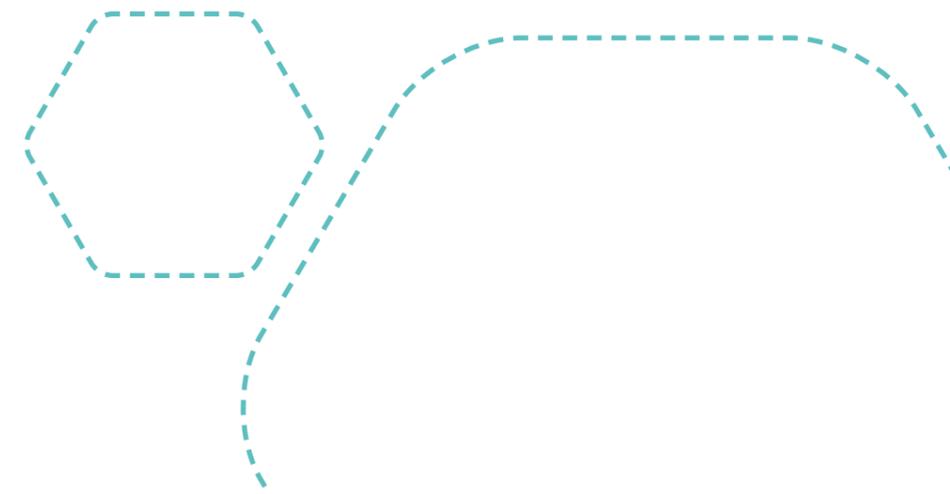
The Household Expenditure Survey analyses expenditure on a per-household basis, and does not distinguish between individuals in the same household. In order to investigate the expenditure of the elderly, the research team divided households into three groups based on the age of their members:

1) Elderly households (households consisting entirely of elderly individuals);
2) Households in which at least half of its members are elderly (not including households consisting entirely of elderly individuals);
3) Other households (households in which less than half of the members are elderly).

The research team also divided elderly households into two separate groups (age 60+ and age 65+). Households with more than one elderly member were only classified as 65+ if all elderly members were over this age. After dividing households into different types based on the age of their members, the research team proceeded to look at the income distribution of each household type. This analysis helped the research team to investigate how the expenditure of elderly households compared with other households (Table 2). The research team found that elderly households and households in which at least half of its members are elderly were more likely to be in the low-income and lower-middle income groups. This also applied to single-person households (Table 2 and Table 3).

Table 2 – Household type and income group

Household type	Income group				
	Low income	Lower middle-income	Upper middle-income	High-income	Total
Elderly households (60+)	26.9%	35.7%	25.3%	12.1%	100%
Households in which at least half of its members are elderly	13.0%	37.2%	28.4%	21.3%	100%
Other households	11.9%	28.9%	27.6%	31.6%	100%
Elderly households (65+)	29.0%	33.1%	27.3%	10.7%	100%
Households in which at least half of its members are elderly	17.5%	38.1%	25.0%	19.5%	100%
Other households	11.9%	30.0%	27.8%	30.3%	100%
Total	**13.9%**	**31.0%**	**27.4%**	**27.6%**	**100%**

Note: 1) The Household Expenditure Survey is conducted once every 5 years to collect up-to-date information on the expenditure patterns of Hong Kong households and update the expenditure weightings of the Consumer Price Index (CPI) series. The household income data collected for this survey is primarily used to verify the expenditure data and should be used with caution.
2) Due to rounding, numbers and percentages presented in this report may not add up precisely to the totals provided.

Table 3 – Household type and income group for single-person households

Household type	Income group (single-person households)				
	Low income	Lower middle-income	Upper middle-income	High-income	Total
Age 60 and above	19.9%	36.5%	28.8%	14.8%	100%
Less than 60 years old	2.9%	17.6%	30.2%	49.2%	100%
Age 65 and above	23.9%	30.3%	31.2%	14.6%	100%
Less than 65 years old	3.9%	23.4%	29.0%	43.7%	100%
Total	**9.9%**	**25.5%**	**29.6%**	**35.0%**	**100%**

Note: 1) The Household Expenditure Survey is conducted once every 5 years to collect up-to-date information on the expenditure patterns of Hong Kong households and update the expenditure weightings of the Consumer Price Index (CPI) series. The household income data collected for this survey is primarily used to verify the expenditure data and should be used with caution.
2) Due to rounding, numbers and percentages presented in this report may not add up precisely to the totals provided.

Among low-income households, almost 80% were living in public housing. Less than 20% were living in private housing, and among age 60+ households in this income group, less than 10% lived in owner-occupied Subsidised Sale Flats (SSFs) (table 4).

Table 4 – Household type and dwelling type (low-income group)

Household type	Type of housing			
	Public housing	Subsidised Sale Flats (SSFs)	Private housing	Total
Elderly households (60+)	76.9%	5.0%	18.1%	100%
Households in which at least half of its members are elderly	83.8%	7.9%	8.3%	100%
Other households	77.6%	2.8%	19.5%	100%
Elderly households (65+)	78.8%	***	***	100%
Households in which at least half of its members are elderly	81.2%	***	***	100%
Other households	77.7%	3.5%	18.7%	100%
Total	**78.3%**	**4.1%**	**17.6%**	**100%**

Note: 1) The Household Expenditure Survey is conducted once every 5 years to collect up-to-date information on the expenditure patterns of Hong Kong households and update the expenditure weightings of the Consumer Price Index (CPI) series. The household income data collected for this survey is primarily used to verify the expenditure data and should be used with caution.
2) Due to rounding, numbers and percentages presented in this report may not add up precisely to the totals provided. *** As the sample size was too small, these figures have not been published.

Table 5 – Household type and dwelling type (upper-middle income group)

Household type	Type of housing			
	Public housing	Subsidised Sale Flats (SSFs)	Private housing	Total
Elderly households (60+)	7.2%	29.6%	63.2%	100%
Households in which at least half of its members are elderly	15.3%	32.5%	52.1%	100%
Other households	19.1%	25.3%	55.5%	100%
Elderly households (65+)	***	***	70.8%	100%
Households in which at least half of its members are elderly	15.8%	31.4%	52.7%	100%
Other households	18.7%	26.6%	54.7%	100%
Total	**17.2%**	**27.0%**	**55.9%**	**100%**

Note: 1) The Household Expenditure Survey is conducted once every 5 years to collect up-to-date information on the expenditure patterns of Hong Kong households and update the expenditure weightings of the Consumer Price Index (CPI) series. The household income data collected for this survey is primarily used to verify the expenditure data and should be used with caution.
2) Due to rounding, numbers and percentages presented in this report may not add up precisely to the totals provided. *** As the sample size was too small, these figures have not been published.

Results of analysis
Low-income group

Among low-income households, households with a higher proportion of elderly members had a lower expenditure, regardless of the cut-off age used (60 or 65). Households in the age 60+ group had a slightly higher expenditure than those in the age 65+ group. The argest household expense was housing and utilities (approx. HK$2,000–3,000), followed by groceries (approx. HK$1,000–2,000). Restaurant (primarily eating out) and hotel spending came in third place, with average expenditure roughly equal to groceries. However, households consisting entirely of elderly members spent more on groceries than restaurants, while the opposite was true for other households (type 3).

Health care expenditure was very similar across all household types (HK$400–500). Average monthly expenditure was approximately HK$7,000 for age 60+ households, and slightly over HK$6200 for age 65+ households. The average monthly expenditure for other households (type 3) was roughly double the figure for elderly households (type 1) (table 6).

Table 6 – Average monthly expenditure for low-income households (including households with no relevant expenditure)

Consumption category	Low-income group Elderly households (60+)			Low-income group Elderly households (65+)		
	Households consisting entirely of elderly members	Households in which at least half of its members are elderly	Other households	Households consisting entirely of elderly members	Households in which at least half of its members are elderly	Other households
	Average monthly expenditure per household (HK dollars)					
Groceries (not including alcoholic drinks and tobacco)	$1,645	$2,283	$2,515	$1,567	$2,074	$2,483
Alcoholic drinks and tobacco	$23	$85	$127	$26	$72	$118
Clothing and footwear	$86	$212	$501	$43	$233	$461
Housing, water, electricity, gas and other fuel	$2,861	$3,232	$3,579	$2,587	$3,083	$3,595
Furnishings, household equipment and routine household maintenance	$107	$358	$312	$89	$410	$290
Health care	$429	$527	$479	$397	$575	$475
Transportation	$230	$460	$933	$121	$367	$896
Communication	$221	$348	$597	$196	$281	$573
Recreation and culture	$145	$200	$526	$129	$180	$488
Education	$1	$154	$1,177	$0	$75	$1,051
Restaurants and hotels	$1,227	$2,418	$2,976	$1,010	$2,227	$2,884
Miscellaneous goods and services	$95	$191	$240	$81	$172	$232
Total	**$7,070**	**$10,470**	**$13,962**	**$6,245**	**$9,749**	**$13,545**

Note: 1) The Household Expenditure Survey is conducted once every 5 years to collect up-to-date information on the expenditure patterns of Hong Kong households and update the expenditure weightings of the Consumer Price Index (CPI) series. The household income data collected for this survey is primarily used to verify the expenditure data and should be used with caution.
2) During the survey period of the 2014/15 HES, household expenditure was lowered by a number of government-funded one-off relief measures. Household expenditure figures in this table refer to actual household expenditure after receiving the aforementioned waivers/concessions.

Lower-middle income group

The spending patterns of lower-middle income households were very similar. Groceries expenditure was almost identical, although spending on eating out was approximately 50% higher. The greatest differences were observed in housing and utility costs, which were roughly double those of the low-income group, presumably due to a lower proportion of these households living in public housing. Health care costs were relatively low, and similar to the lower-income group (table 7).

Table 7 – Average monthly expenditure for lower-middle income households
(including households with no relevant expenditure)

Consumption category	Lower-middle income group Elderly households (60+)			Lower-middle income group Elderly households (65+)		
	Households consisting entirely of elderly members	Households in which at least half of its members are elderly	Other households	Households consisting entirely of elderly members	Households in which at least half of its members are elderly	Other households
	Average monthly expenditure per household (HK dollars)					
Groceries (not including alcoholic drinks and tobacco)	$1,789	$2,553	$2,792	$1,785	$2,388	$2,731
Alcoholic drinks and tobacco	$104	$128	$180	$90	$73	$180
Clothing and footwear	$238	$511	$740	$215	$413	$705
Housing, water, electricity, gas and other fuel	$6,630	$6,450	$6,129	$7,222	$6,809	$6,069
Furnishings, household equipment and routine household maintenance	$274	$713	$613	$293	$914	$565
Health care	$472	$678	$705	$553	$691	$676
Transportation	$295	$752	$1,448	$183	$554	$1,356
Communication	$263	$529	$834	$265	$459	$781
Recreation and culture	$291	$368	$765	$197	$352	$713
Education	$8	$144	$1,208	$3	$82	$1,050
Restaurants and hotels	$1,848	$3,430	$4,726	$1,896	$2,864	$4,507
Miscellaneous goods and services	$226	$418	$473	$200	$359	$464
Total	**$12,438**	**$16,674**	**$20,613**	**$12,902**	**$15,959**	**$19,796**

Note: 1) The Household Expenditure Survey is conducted once every 5 years to collect up-to-date information on the expenditure patterns of Hong Kong households and update the expenditure weightings of the Consumer Price Index (CPI) series. The household income data collected for this survey is primarily used to verify the expenditure data and should be used with caution.
2) During the survey period of the 2014/15 HES, household expenditure was lowered by a number of government-funded one-off relief measures. Household expenditure figures in this table refer to actual household expenditure after receiving the aforementioned waivers/concessions.

Upper-middle income households

The spending patterns of upper-middle income households were similar to these of the previous two groups. These households spent slightly more on groceries, but roughly 30% more on eating out. Housing and utility costs were 50–100% higher compared with lower-middle income households. Most notable was the significant increase in health care costs – among elderly households, health care expenditure was almost double, presumably due to increased use of private health care services. Overall expenditure was roughly 50% higher (table 8).

Table 8 – Average monthly expenditure for upper-middle income households
(including households with no relevant expenditure)

Consumption category	Upper-middle income group Elderly households (60+)			Upper-middle income group Elderly households (65+)		
	Households consisting entirely of elderly members	Households in which at least half of its members are elderly	Other households	Households consisting entirely of elderly members	Households in which at least half of its members are elderly	Other households
	Average monthly expenditure per household (HK dollars)					
Groceries (not including alcoholic drinks and tobacco)	$1,982	$2,775	$2,625	$1,945	$2,617	$2,634
Alcoholic drinks and tobacco	$34	$182	$168	$20	$97	$175
Clothing and footwear	$223	$384	$1,105	$211	$330	$1,018
Housing, water, electricity, gas and other fuel	$12,029	$11,102	$9,963	$12,661	$11,998	$9,977
Furnishings, household equipment and routine household maintenance	$341	$836	$1,253	$295	$1,067	$1,163
Health care	$973	$1,017	$762	$1,018	$997	$789
Transportation	$495	$1,424	$2,103	$299	$931	$2,057
Communication	$328	$679	$932	$313	$551	$903
Recreation and culture	$292	$794	$1,415	$151	$633	$1,351
Education	$6	$154	$1,468	$7	$45	$1,313
Restaurants and hotels	$2,331	$4,237	$5,822	$2,090	$3,567	$5,653
Miscellaneous goods and services	$185	$546	$702	$138	$435	$686
Total	**$19,221**	**$24,131**	**$28,317**	**$19,148**	**$23,269**	**$27,721**

Note: 1) The Household Expenditure Survey is conducted once every 5 years to collect up-to-date information on the expenditure patterns of Hong Kong households and update the expenditure weightings of the Consumer Price Index (CPI) series. The household income data collected for this survey is primarily used to verify the expenditure data and should be used with caution.
2) During the survey period of the 2014/15 HES, household expenditure was lowered by a number of government-funded one-off relief measures. Household expenditure figures in this table refer to actual household expenditure after receiving the aforementioned waivers/concessions.

The average expenditure calculations for each category only include households with reported expenditure.

The aforementioned average expenditure values were calculated by dividing total household expenditure by the total number of households. With this calculation method, households with no expenditure are included in the denominator. In order to exclude households with no expenditure, the research team had to remove these households from the calculations. This calculation method results in a higher average, but better reflects the circumstances of households who reported expenditure. For example, if the average expenditure for category A is HK$1,000 when all households are included, but only half of households actually reported expenditure for this category, then the average increases to HK$2,000 when households with no reported expenditure are excluded from the calculations.

For the **low-income group**, almost all households reported expenditure for groceries, housing and communication, but only a small percentage had purchased alcoholic drinks, tobacco, clothing over the past month. Among elderly households, only a very small percentage reported expenditure on education. For health care, the situation was similar across all age groups, with around 40% of households in each group reporting health care expenditure.

The discrepancy between the two average expenditure values depended on the percentage of households reporting expenditure for the corresponding category. For each category, a higher proportion of households reporting expenditure resulted in a lower discrepancy, and vice versa. For example, only around 50% of households reported health care expenditure, so if households with no expenditure are excluded, the average expenditure doubles to over HK$1,000, behind housing, groceries, and restaurant expenditure.

For **lower-middle income households**, the proportion of households reporting expenditure for each category was similar to that of the low-income group. This was also true for health care, with only around half of households reporting expenditure. The second average expenditure value was therefore twice as high as the initial average. The initial average expenditure of the two income groups was relatively similar, meaning that the average expenditure figures after excluding households with no expenditure increased by a similar amount.

For **upper-middle income households**, the proportion of households reporting expenditure for each category was similar to that of the lower-middle income group. The greatest differences could be observed in elderly households – in the upper-middle income group, a higher proportion of elderly households reported transport, restaurant and entertainment expenditure. There was also an increase in the proportion of households reporting health care expenditure (around 40% of lower-middle income households vs. more than 50% of upper-middle income households) and miscellaneous expenses (40% vs. 60–70%), both among elderly and other households. Elderly households were more likely to report health care expenditure, with an average monthly expenditure of almost HK$2,000 versus HK$1,500 for other households.

Per-capita expenditure of elderly household members

The above two methods calculate average expenditure on a per-household basis, and give little indication of the spending patterns of elderly individuals. The research team therefore decided to compare the expenditure of single-person elderly households with other single-person households. However, due to the small sample size of low-income and lower-middle income single-person households, it was not possible to provide reliable analysis. The following section therefore focuses on analysing the expenditure of upper-middle income and high-income single-person households.

The average monthly expenditure of upper-middle income single-person households was between HK$12,000 and HK$15,000, and was higher for elderly households. The largest expenses were housing, water and electricity, which accounted for between 40 and 60% of total expenditure. These expenses accounted for a higher proportion of total expenditure among elderly households. Health care expenditure for elderly households was approximately HK$1,000, much higher than for younger households, who spent just over HK$200 on average. After excluding elderly households with no health care expenditure, this figure rose to HK1,700 (age 60+) and HK$2,000 (age 65+).

After calculating the average per-capita expenditure for each consumption category, the research team proceeded to calculate the average per-capita expenditure after excluding households with no reported expenditure. In general, the size of households consisting entirely of elderly members tended to be smaller, so there was less of a discrepancy between the average per-capita expenditure and average per-household expenditure. The average per-capita expenditure in households consisting entirely of elderly members was 60–70% of average per-household expenditure, whereas in the other two groups (households in which at least half of its members are elderly, and other households), average per-capita expenditure was just 30–40% of average per-household expenditure.

In order to investigate the expenditure of elderly residents, households consisting entirely of elderly members were analysed as a separate group. The research team listed major expenses and compared a range of average monthly expenditure figures, including those for elderly households, single-person elderly households, and the per-capita average for elderly households. The team also calculated two sets of average expenditure figures – one including all elderly households, and the other excluding those households

with no reported expenditure. The figures were calculated for two groups of elderly households – those aged 60+, and those aged 65+. As the purpose of the research was to investigate the expenditure of middle-income households, the research team focused on analysing and comparing the statistics from upper-middle income and lower-middle income elderly households. However, as discussed above, the sample size for single-person lower-middle income elderly households was too small, and the corresponding data could not be provided.

For multi-person elderly households, average per-capita expenditure was more than 60% of the per-household average. For single-person households, average expenditure was 75–80% of the average for multi-person households, depending on whether elderly people were defined as age 60+ or age 65+. For health care, the average expenditure of single-person, upper-middle income elderly households was similar to the average for multi-person households. However, on a per-capita basis, average health care expenditure was more than 60% of the per-household average. (Table 9, Table 10).

Table 9 – Average expenditure of lower-middle income elderly households (major expenses)

Consumption category	Lower-middle income elderly households (60+)					
	Households consisting entirely elderly households	Single-person elderly households	Per-capita average	Households consisting entirely elderly households	Single-person elderly households	Per-capita average
	Average monthly expenditure (including all households)			Average monthly expenditure (excluding households with no reported expenditure)##		
Groceries (not including alcoholic drinks and tobacco)	$1,789	***	$1,133	$1,824	***	$1,155
Housing, water, electricity, gas and other fuel	$6,630	***	$4,197	$6,630	***	$4,197
Health care	$472	***	$299	$1,004	***	$636
Restaurants and hotels	$1,848	***	$1,170	$2,079	***	$1,316
Total	**$12,438**	***	**$7,874 (63.3%)#**			

Consumption category	Lower-middle income elderly households (65+)					
Groceries (not including alcoholic drinks and tobacco)	$1,785	***	$1,121	$1,821	***	$1,144
Housing, water, electricity, gas and other fuel	$7,222	***	$4,537	$7,222	***	$4,537
Health care	$553	***	$348	$1,089	***	$685
Restaurants and hotels	$1,896	***	$1,191	$2,179	***	$1,369
Total	**$12,902**	***	**$8,105 (63.3%)#**			

Table 10 – Average expenditure of upper-middle income elderly households (major expenses)

Consumption category	Upper-middle income elderly households (60+)					
	Households consisting entirely elderly households	Single-person elderly households	Per-capita average	Households consisting entirely elderly households	Single-person elderly households	Per-capita average
	Average monthly expenditure (including all households)			Average monthly expenditure (excluding households with no reported expenditure)##		
Groceries (not including alcoholic drinks and tobacco)	$1,982	$1,305	$1,294	$2,012	$1,330	$1,314
Housing, water, electricity, gas and other fuel	$12,029	$8,922	$7,853	$12,029	$8,922	$7,853
Health care	$973	$968	$636	$1,772	$1,786	$1,158
Restaurants and hotels	$2,331	$1,794	$1,521	$2,431	$1,888	$1,586
Total	**$19,221**	**$14,493 (75.4%)#**	**$12,548 (65.2%)#**			

Consumption category	Upper-middle income elderly households (65+)					
Groceries (not including alcoholic drinks and tobacco)	$1,945	$1,346	$1,304	$1,957	$1,362	$1,312
Housing, water, electricity, gas and other fuel	$12,661	$9,767	$8,489	$12,661	$9,767	$8,489
Health care	$1,018	$1,056	$682	$2,061	$2,091	$1,381
Restaurants and hotels	$2,090	$1,716	$1,402	$2,198	$1,818	$1,474
Total	**$19,148**	**$15,385 (83.5%)#**	**$12,839 (65.2%)#**			

Note: 1) The Household Expenditure Survey is conducted once every 5 years to collect up-to-date information on the expenditure patterns of Hong Kong households and update the expenditure weightings of the Consumer Price Index (CPI) series. The household income data collected for this survey is primarily used to verify the expenditure data and should be used with caution.
2) Due to rounding, numbers and percentages presented in this report may not add up precisely to the totals provided.
*** As the sample size was too small, these figures have not been published.
# Compared with multi-person elderly households.
Not all households reported expenditure; if all households are included, the average would be lower. Conversely, excluding households that did not report any expenditure would result in a higher average.

Note: 1) The Household Expenditure Survey is conducted once every 5 years to collect up-to-date information on the expenditure patterns of Hong Kong households and update the expenditure weightings of the Consumer Price Index (CPI) series. The household income data collected for this survey is primarily used to verify the expenditure data and should be used with caution.
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Compared with multi-person elderly households.
Not all households reported expenditure; if all households are included, the average would be lower. Conversely, excluding households that did not report any expenditure would result in a higher average.

SUMMARY

Based on the results of our analysis, households with a higher proportion of elderly members had a lower expenditure, both overall and across the individual consumption categories. For multi-person households consisting entirely of elderly members, average per-capita expenditure was lower than the average expenditure of single-person households.

Among all household types, the biggest items of expenditure were: **1)** groceries; **2)** housing, water and electricity, **3)** eating out; and **4)** health care. Housing, water and electricity was the biggest expense for all income groups and household types, and increased with income. Spending on groceries did not increase significantly with income, unlike eating out – spending in this category was significantly higher for households with a higher income. Almost all households reported expenditure for the four categories listed above. For health care, however, only around half of households reported expenditure. After excluding households with no reported expenditure, average health care expenditure was similar for low-income and lower-middle income households. This can be attributed to the widespread use of public health care services among these groups. However, health care expenditure was significantly higher among upper-middle income and high-income households, presumably due to their increased use of private health care services.

Among the primary subjects of this study (i.e. upper-middle income households), households consisting entirely of elderly members reported an average monthly expenditure of approximately HK$20,000, of which housing, water and electricity accounted for just over HK$10,000, and health care approximately HK$2,000. Total food spending amounted to just over HK$4,000. On a per-capita basis, the average expenditure of elderly households was approximately HK$12,000, compared with HK$15,000 for single-person elderly households (Table 11).

Assuming annual inflation of approximately 2% since 2014/15, expenditure levels for 2020 would be 10% higher than the reported figures. For the upper-middle income group, this would mean an average monthly expenditure of approximately HK$21,000 for elderly households (just over HK$13,000 per person), and just over HK$16,000 for single-person elderly households.

Table 11 – **Average monthly expenditure for households in different income groups (excluding households with no relevant expenditure)**

Consumption category	Low-income group Elderly households (65+)			Lower-middle income group Elderly households (65+)		
	Households consisting entirely of elderly members	Households in which at least half of its members are elderly	Other households	Households consisting entirely of elderly members	Households in which at least half of its members are elderly	Other households
	Average monthly expenditure per household (HK dollars)					
Groceries (not including alcoholic drinks and tobacco)	$1,596	$2,095	$2,501	$1,821	$2,407	$2,770
Housing, water, electricity, gas and other fuel	$2,618	$3,083	$3,599	$7,222	$6,809	$6,069
Health care	$1,070	$1,272	$1,042	$1,089	$1,304	$1,331
Restaurants and hotels	$1,288	$2,497	$3,023	$2,179	$3,106	$4,562
Total	**$6,245**	**$9,749**	**$13,545**	**$12,902**	**$15,959**	**$19,796**
Consumption category	Upper-middle income group Elderly households (65+)			High-income group Elderly households (65+)		
Groceries (not including alcoholic drinks and tobacco)	$1,957	$2,638	$2,688	$1,811	$3,359	$2,854
Housing, water, electricity, gas and other fuel	$12,661	$11,998	$9,977	$22,688	$23,608	$19,018
Health care	$2,061	$1,846	$1,526	$1,843	$2,302	$2,613
Restaurants and hotels	$2,198	$3,670	$5,699	$4,043	$5,678	$7,184
Total	**$19,148**	**$23,269**	**$27,721**	**$32,510**	**$43,947**	**$47,274**

Note: 1) The Household Expenditure Survey is conducted once every 5 years to collect up-to-date information on the expenditure patterns of Hong Kong households and update the expenditure weightings of the Consumer Price Index (CPI) series. The household income data collected for this survey is primarily used to verify the expenditure data and should be used with caution.
2) Due to rounding, numbers and percentages presented in this report may not add up precisely to the totals provided.

Analysis of income replacement rates

Introduction

This study adopted the OECD methods to calculate and analyse income replacement rates. This metric expresses estimated retirement income from the various pension pillars (i.e. the five pillars defined by the World Bank) as a percentage of pre-retirement income, and can be used to evaluate the retirement income of individuals in each income bracket. The income brackets were determined based on multiples of the median monthly income, and it was assumed that the income of the individuals in each bracket would remain the same throughout their career. Due to differences in life expectancy and median income, the replacement rates for men and women were calculated separately (a median monthly income of HK$20,000 (second quarter 2020) was used for men, and HK$17,500 for women). The income replacement rate can be calculated on a gross or net basis. The latter is an individual's net pension entitlement (after any applicable taxes) divided by net pre-retirement earnings (after income tax and contributions to pension plans, social security and health care; in Hong Kong, only pension contributions are applicable). In Hong Kong, however, tax is not levied on MPF and social security entitlements. As most workers in Hong Kong only participate in the MPF scheme, the research team excluded workers contributing to other pension schemes from the replacement rate calculations.

As MPF account holders are unable to convert their savings to an annuity plan, the research team devised a method to convert total MPF benefits at age 65 into an equivalent monthly retirement income. A calculation model developed by a team led by Professor Nelson Chow was used to divide total MPF benefits by an annuity factor (AX)[11] (18.507 for men and 22.119 for women). These annuity factors were calculated based on life expectancy and expected annuity rates. In addition, as the Old Age Allowance cannot be claimed until age 70, the research team adjusted the monthly allowance[12] to the amount that would be received if the allowance could be claimed from age 65. A monthly Old Age Allowance of HK$1,435 (from 1 February 2020) claimed from age 70 is equivalent to a monthly allowance of HK$1,057 claimed from age 65.

Contribution period

The research team assumed a contribution period of 40 years, although the OECD assumes that low-income workers contribute for a shorter period due to unemployment and other factors. For example, 43.8% of women earning less than half of the median income had gaps in their contributions, versus 0% of men earning more than 3 times the median income.

Life expectancy and annuity factors

According to the Hong Kong Life Tables 2009–2064 published by the Census and Statistics Department, the average life expectancy for a 65-year-old in 2019 was 20.37 years for men and 24.75 years for women[9]. In 2021, the respective figures were 20.54 years for men and 25.22 years for women[10]. The research team calculated the mean from these two years, meaning that in 2020, average life expectancy at 65 was 20.455 years for men and 24.985 years for women.

Pillars of retirement income

Social security (pillar 0)

The social security pillar includes the means-tested Comprehensive Social Security Assistance (CSSA) and Old Age Living Allowance, and the non-means-tested Old Age Allowance. CSSA and the Old Age Living Allowance can be claimed from age 65. CSSA eligibility requirements are relatively strict – only around 10% of the elderly are in receipt of this allowance, versus 40% for the Old Age Living Allowance (Table 12). The Old Age Living Allowance (OALA) comprises the Normal OALA and the Higher OALA. However, at the beginning of 2020 the government announced that the Normal OALA would be merged with the Higher OALA, and loosened the eligibility criteria for the Higher OALA. As a result, the number of the elderly in receipt of the OALA is expected to grow, and according to government estimates, annual OALA expenditure will increase by over HK$5 billion from the current level of HK$25 billion[13]. These arrangements had yet to be implemented by the government at the time the 2020 replacement rates were calculated, but as current workers stand to benefit from this new policy, the research team assumed that the OALA merger policy and looser eligibility requirements had already been implemented. Those who are not eligible to claim CSSA and the OALA can apply to claim the lower Old Age Allowance from age 70. However, more than 10% of over 70s do not apply to claim the Old Age Allowance. Nevertheless, when calculating the replacement rates, the research team assumed that all the elderly would apply for the social security benefits to which they are entitled.

[13] https://www.hk01.com/ 社會新聞 /421933/

Table 12 – Number of applicants for various social security allowances (August 2020)#

Allowance (only one allowance may be claimed)	Monthly allowance* (HK dollars)	65 years old or above	
		Number of claimants##	Percentage
CSSA (65 or above)	$3,715**	13.3	9.85%
Higher Old Age Living Allowance	$3,715	53.5	38.8%
Normal Old Age Living Allowance	$2,770	5.03	3.6%
Old Age Allowance	$1,435	27.5	20.0% (29.8% for residents aged 70 or above)

Note: * 2020 allowance
Not including elderly people in receipt of the Disability Allowance. In 2020, 33,000 elderly people were in receipt of the Disability Allowance (2.3% of the elderly population). From February 2020, the Normal Disability Allowance was raised to HK$1,885, and the Higher Disability Allowance was raised to HK$3,770.
Figures as of end of August 2020 https://www.swd.gov.hk/tc/index/site_pubsvc/page_socsecu/sub_statistics/
Figures for CSSA claimants (aged 65 or above) are from the end of 2019 and do not include claimants residing outside of Hong Kong.
https://www.swd.gov.hk/storage/asset/section/2252/en/2020_21_Questions_and_Replies_(Sorted_by_Reply_No.)(Eng_Version).pdf (p.350) Percentage figures refer to the percentage of the elderly population at the end of 2019 (1.352 million).
https://www.censtatd.gov.hk/hkstat/sub/sp150_tc.jsp?tableID=002&ID=0&productType=8**
** Standard CSSA allowance, not including allowances for rent and other expenses.

[9] Hong Kong Life Tables 2009–2064, Census and Statistics Department (2015)
[10] Hong Kong Life Tables 2011–2064, Census and Statistics Department (2017)
[11] $AX(n,r) = (1 - (1 + r)^{-n}) / r$ (n=life expectancy, r=actual annuity rate)
[12] The annuity rate for a 5-year deferred annuity is 13.61 for men and 17.243 for women: $AX(n-t, r) / (1+i)^t$ (t=number of deferred years [5 years in this case]).

In addition to the Old Age Allowance for the elderly aged 70 and above, assumptions also had to be made to calculate other social security allowances claimed by the various income groups (such as the age at which people earning the median income would be eligible to claim the Normal OALA or Higher OALA). In order to calculate the speed at which these residents would exhaust their MPF and personal savings, the research team assumed that their basic monthly expenditure during retirement would be half of their pre-retirement income. Assuming that the return on investment would keep pace with inflation, the team then calculated the age at which they would be eligible to claim the OALA. The research team did not have access to data on savings or investments, and therefore assumed that individuals earning below the median income would allocate 10% of their monthly salary to investments or savings, that the rate of return on these investments/savings would equal inflation, and that the annuity rate following the conversion of these savings/investments to an annuity policy would be the same as the MPF rate of return following conversion to an annuity policy (1% IRR after inflation). The research team also assumed that individuals earning above the median income would invest 5% of their salary in tax-deductible voluntary contributions, and that the rate of return on these contributions would be the same as the MPF (2% after inflation). It was also assumed that these individuals would invest a further 5% of their salary in other investments and savings, and that the rate of return on these investments/savings would equal inflation.

Tables 13 and 14 list the age (number of years after retirement at age 65) at which men and women in different income groups can claim various social security allowances. For example, upon retirement at age 65, individuals earning 0.75 times the median income would have HK$1.4 million (men) and HK$1.02 million (women) of MPF contributions and savings. Assuming that their monthly expenditure would be half of their pre-retirement expenditure, and that their MPF and savings generated an annual IRR of 1% after inflation, men in this group would be eligible to claim the OALA 8.72 years after retirement. Due to their lower median income, women in this group would be eligible to claim the OALA 6.05 years after retirement.[14]

Based on these assumptions, men earning at least the median income (MPF and savings of at least HK$2.06 million) and women earning at least 1.5 times the median income (HK2.82 million) would not be eligible for the Old Age Living Allowance, as their monthly retirement income from various pillars (not including personal savings) would exceed the eligibility limit ($8,690[15] in July 2020).

[14] They could also choose to invest HK$1 million of their assets in the HKMC Annuity Plan, which would generate a monthly retirement income of HK$5,800 (for men) and HK$5,300 (for women) after age 65. If their remaining assets were less than HK$500,000, they would be immediately eligible to claim the OALA. As only a small proportion of individuals participate in the HKMC Annuity Plan, it is not included in the model for calculating the replacement ratio. However, the replacement rate can be recalculated at a future date as more people begin to participate in the scheme.
[15] https://www.swd.gov.hk/tc/index/site_pubsvc/page_socsecu/sub_socialsecurity/#CSSAal1

Table 13 – Old-age social security allowances (pillar 0) for different income groups (men)

Allowance	Amount* (HK dollars)	Multiple of median (male) monthly income (Median monthly income of HK$20,000)****				
		No income	0.5	0.75	1	1.5 or above
Comprehensive Social Security Assistance (CSSA)	$6,715**	✓				
Higher Old Age Living Allowance (after merging policy)	$3,715		3.8 years after retirement	8.72 years after retirement		
Old Age Allowance*** (OAA)	$1,435			5 years after retirement (until eligible for OALA)	5 years after retirement	5 years after retirement

Note: * From February 2020
https://www.swd.gov.hk/tc/index/site_pubsvc/page_socsecu/sub_socialsecurity/#CSSAal1
** Figures from February 2019, average CSSA (including all allowances) received by single claimants (see Replies to initial written questions raised by Finance Committee Members in examining the Estimates of Expenditure 2019-20, p. 2184)

*** Cannot be claimed until age 70; assuming that the funds are used from age 65, the average monthly allowance is HK$1,057 for men and HK$1,119 for women.
**** As of the second quarter of 2020
https://www.statistics.gov.hk/pub/B10500012020QQ02B0100.pdf

Table 14 – Old-age social security allowances (pillar 0) for different income groups (women)

Allowance	Amount* (HK dollars)	Multiple of median (female) monthly income (Median monthly income of HK$17,500)				
		No income	0.5	0.75	1	1.5 or above
Comprehensive Social Security Assistance (CSSA)	$6,715	✓				
Higher Old Age Living Allowance (after merging policy)	$3,715		✓	6.05 years after retirement	6.70 years after retirement	
Old Age Allowance (OAA)	$1,435			5 years after retirement (until eligible for OALA)		5 years after retirement

MPF (pillar 2)

Under the MPF scheme, the employee and employer each contribute 5% of the employee's monthly salary (up to a monthly salary of HK$30,000). Employees with a monthly salary of less than HK$7,100 do not need to make contributions, but the employer is still required to make contributions to the employee's MPF account. As discussed above, low-income individuals are more likely to have gaps in their contributions, a fact which is reflected in the calculations of their accrued MPF benefits at retirement age. The research team also assumed an annualized internal rate of return of 2%. Table 15 and Table 16 list the accrued MPF benefits of male and female workers in different income groups after 40 years of contributions.

Table 15 – MPF (pillar 2) contributions and assumptions (men)

Multiple of median monthly income	Monthly income (HK dollars)	MPF contributions (2020 figures)				Accrued MPF benefits at age 65 Actual rate of return of 2% (2020 prices)
		Employer	Employee	Total	Proportion with gaps in contributions*	
0.5	$10,000	$332	$500	$832	33.6%	$400,245
0.75	$15,000	$604	$750	$1,354	19.5%	$789,958
1	$20,000	$887	$1,000	$1,887	11.3%	$1,213,104
1.5	$30,000	$1,443	$1,500	$2,943	3.8%	$2,052,076
2	$40,000	$1,481	$1,500	$2,981	1.3%	$2,132,970
3	$60,000	$1,498	$1,500	$2,998	0.1%	$2,169,762
5	$100,000	$1,500	$1,500	$3,000	0.0%	$2,174,411

Note: * Relative to income, men=$e^{-2.18M}$ (M = multiple of median income)

Table 16 – MPF (pillar 2) contributions and assumptions (women)

Multiple of median monthly income	Monthly income (HK dollars)	MPF contributions (2020 figures)				Accrued MPF benefits at age 65 Actual rate of return of 2% (2020 prices)
		Employer	Employee	Total	Proportion with gaps in contributions*	
0.5	$8,750	$246	$438	$683	43.8%	$278,215
0.75	$13,125	$466	$656	$1,122	29.0%	$577,381
1	$17,500	$707	$875	$1,582	19.2%	$926,428
1.5	$26,250	$1,202	$1,313	$2,515	8.4%	$1,669,200
2	$35,000	$1,445	$1,500	$2,945	3.7%	$2,055,648
3	$52,500	$1,489	$1,500	$2,989	0.7%	$2,151,422
5	$87,500	$1,500	$1,500	$3,000	0.0%	$2,173,619

Note: * *Relative to income, women=$e^{-1.65\,M}$ (M = multiple of median income)*

  The percentage of women earning at least 5 times the median income with no gaps in contributions is not exactly zero. There are non-zero decimal places.

Voluntary pension plans and private investments/savings (pillar 3)

The research team assumed that individuals earning at least the median income would make tax-deductible voluntary contributions equal to 5% of their income, with no upper limit. In addition, the team also assumed that all income groups would allocate 5% of their income to personal savings/investments, and that the rate of return would be equal to inflation (i.e. a real return of 0%). This assumption may underestimate the investments/savings of high-income earners, but does not affect the calculations on when these individuals may be eligible for the Old Age Living Allowance (OALA), as high-income earners accrue significant savings in their MPF account and are therefore unlikely to qualify for the OALA. Personal savings/investments were not factored into calculations of retirement income, but were used to calculate when retirees would be eligible for the OALA, assuming post-retirement expenditure of 50% of pre-retirement income (after the government's planned merger of the Normal and Higher OALA, individuals with assets of less than HK$500,000 will qualify for the OALA, higher than the current threshold).

Public services and children's support (pillar 4)

Pillar 4 of the World Bank's retirement framework consists of non-financial support such as access to preferential health care, housing and transportation schemes. The research team included three items in its calculations of pillar 4 benefits, not all of which were non-financial. These three items were children's support, health care vouchers and public transport subsidies for the elderly. In order to calculate levels of children's support, the research team used the figures determined by Professor Nelson Chow as part of his government-commissioned retirement study, and adjusted the figures for inflation. Health care vouchers were introduced in 2009 for elderly residents aged 70 or above. Eligible residents can redeem the vouchers for treatment or check-ups at private health clinics. The scheme is designed to relieve the burden on public health care services and reduce waiting times. The eligible age was lowered to 65 in 2017. All eligible residents are entitled to HK$2,000 worth of vouchers each year. Finally, under the public transport subsidy scheme launched in 2012, elderly residents aged 65 and above can enjoy a concessionary fare of $2 per trip on most public transport.

According to figures published by the Information Services Department, the concessionary fare scheme cost HK$154.5 billion in the 2019−20 financial year[16]. The research team divided this figure by the number of eligible elderly residents and obtained a per-capita average of HK$1,150 per year. Table 17 lists the income obtained by each income group under pillar 4.

[16] https://www.hk01.com/ 社會新聞 /421822

Table 17 – Assumptions of pillar 4 income

Pillar 4 income	Annual amount* (HK dollars)	Multiple of median monthly income				
		No income	0.5	0.75	1	1.5 or above
Family support (per month)		0	550	880	1,320	1,320
Health care vouchers (annual maximum)	$2,000	✓	✓	✓	✓	✓
Old-age concessionary transport fares (annual average)	$1,150	✓	✓	✓	✓	✓

Charts 1 to 4 show the results of the replacement rate calculations. The net replacement rates for the median income group (58.9% for men and 62.5% for women) are similar to the OECD average for average earners (63.2% for men and 62.7% for women), but still much lower than the wealthiest OECD member states (Chart 5). If pillar 3 is excluded (the OECD does not include the third pillar in its calculations), the net replacement rate for median income earners decreases to 43.7% for men and 45.9% for women. Among individuals earning 1.5 to 3 times the median income, the decrease is more significant (Table 18 and Charts 6 to 9).

Table 18 – 2020 net replacement rate (assuming an internal MPF rate of return of 2% above inflation)

Multiple of median monthly income	Including all retirement pillars		Excluding pillar 3	
	Men	Women	Men	Female
0.5	59.8%	67.1%	59.8%	67.1%
0.75	49.4%	49.1%	49.4%	49.1%
1	58.9%	62.5%	43.7%	45.9%
1.5	61.9%	54.6%	44.8%	38.1%
2	53.1%	51.5%	35.2%	34.1%
3	42.7%	41.7%	24.1%	23.9%
5	33.6%	32.3%	14.7%	14.7%

Chart 1 – Gross replacement rate for men (all pillars) (2020)

Gross replacement rate for men

Multiple of median monthly income (y-axis): 5, 3, 2, 1.5, 1, 0.75, 0.5

Replacement rate (x-axis): 0.0%, 10.0%, 20.0%, 30.0%, 40.0%, 50.0%, 60.0%, 70.0%

Legend: Pillar 0, Pillar 1, Pillar 2, Pillar 3, Pillar 4

Chart 3 – Gross replacement rate for women (all pillars) (2020)

Gross replacement rate for women

Multiple of median monthly income (y-axis): 5, 3, 2, 1.5, 1, 0.75, 0.5

Replacement rate (x-axis): 0.0%, 10.0%, 20.0%, 30.0%, 40.0%, 50.0%, 60.0%, 70.0%

Legend: Pillar 0, Pillar 1, Pillar 2, Pillar 3, Pillar 4
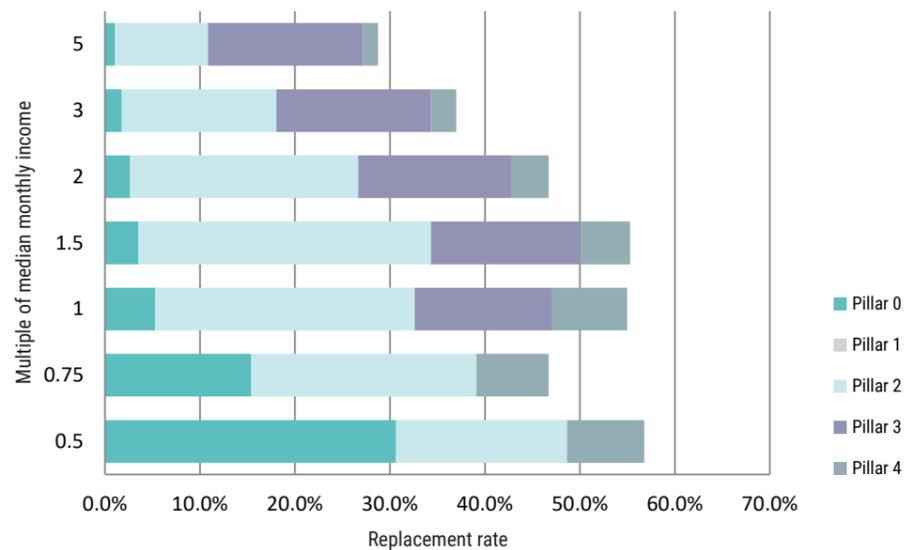
Chart 2 – Net replacement rate for men (all pillars) (2020)

Net replacement rate for men

Multiple of median monthly income (y-axis): 5, 3, 2, 1.5, 1, 0.75, 0.5

Replacement rate (x-axis): 0.0%, 10.0%, 20.0%, 30.0%, 40.0%, 50.0%, 60.0%, 70.0%

Legend: Pillar 0, Pillar 1, Pillar 2, Pillar 3, Pillar 4
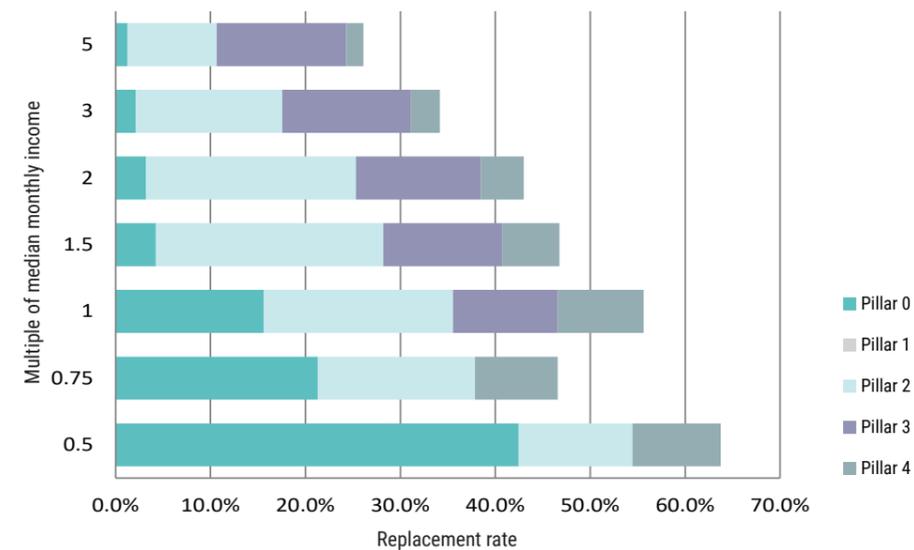
Chart 4 – Net replacement rate for women (all pillars) (2020)

Net replacement rate for women

Multiple of median monthly income (y-axis): 5, 3, 2, 1.5, 1, 0.75, 0.5

Replacement rate (x-axis): 0.0%, 10.0%, 20.0%, 30.0%, 40.0%, 50.0%, 60.0%, 70.0%

Legend: Pillar 0, Pillar 1, Pillar 2, Pillar 3, Pillar 4
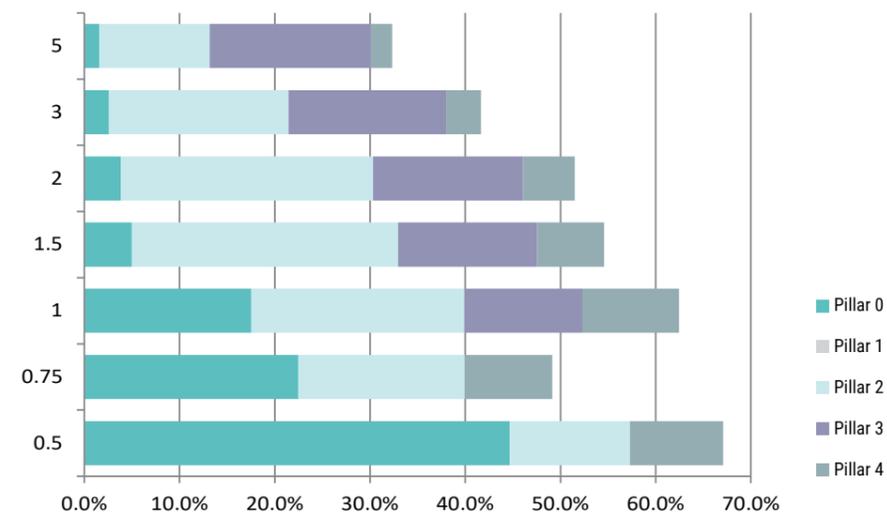
Chart 5 – Net replacement rates of OECD member states*

	Net replacement rate by income level						
	Individual earnings, multiple of mean for men (women where different)						
	Pension age		0.5		1		1.5	
Australia	67		75.5	(72.2)	41.0	(37.3)	43.8	(39.8)
Austria	65		89.7		89.9		89.6	
Belgium	67		70.7		66.2		48.3	
Canada	65		58.3		50.7		39.7	
Chile	65		44.6	(42.6)	37.3	(34.4)	37.9	(34.9)
Czech Republic	65		91.6		60.3		47.9	
Denmark	74		104.5		70.9		63.3	
Estonia	71		65.6		53.1		49.0	
Finland	68		65.1		64.2		64.9	
France	66		71.4		73.6		69.0	
Germany	67		56.1		51.9		51.4	
Greece	62		57.6		51.1		50.3	
Hungary	65	(62)	84.3	(78.4)	84.3	(78.4)	84.3	(78.4)
Iceland	67		80.5		69.8		69.8	
Ireland	68		60.5		35.9		26.7	
Israel	67	(62)	81.1	(69.2)	57.8	(49)	42.4	(35.9)
Italy	71		92.0		91.8		94.4	
Japan	65		45.9		36.8		33.3	
Korea	65		60.8		43.4		32.6	
Latvia	65		55.2		54.3		52.2	
Lithuania	65		48.4		31.0		25.3	
Luxembourg	62		99.0		90.1		85.9	
Mexico	65		35.6		28.6	(26.7)	28.6	(26.7)
Netherlands	71		78.0		80.2		78.5	

Source: OECD pension models

*   OECD (2019). Pension at a glance 2019: OECD and G20 indicators (p. 155). Paris: OECD Publishing.

*   https://www.oecd-ilibrary.org/social-issues-migration-health/pensions-at-a-glance-2019_b6d3dcfc-en*

Note: *These replacement rates only include entitlements from public and mandatory private pension schemes. Entitlements from voluntary pension contributions are not included.*

	Net replacement rate by income level						
	Individual earnings, multiple of mean for men (women where different)						
	Pension age		0.5		1		1.5	
New Zealand	65		79.8		42.8		30.3	
Norway	67		57.0		51.6		43.0	
Poland	65	(60)	35.9	(36.3)	35.1	(27.3)	34.7	(26.8)
Portugal	68		88.0		89.6		89.0	
Slovak Republic	64		71.7		65.1		63.3	
Slovenia	62		62.8	(65.8)	57.5	(60)	53.7	(53.5)
Spain	65		78.6		83.4		82.8	
Sweden	65		60.7		53.4		68.9	
Switzerland	65	(64)	54.3	(52.8)	44.3	(43)	31.7	(30.8)
Turkey	62	(60)	86.2	(82.3)	93.8	(89.6)	98.7	(94.2)
United Kingdom	68		51.0		28.4		20.2	
United States	67		61.2		49.4		42.7	
OECD	**66.1**	**(65.7)**	**68.3**	**(67.6)**	**58.6**	**(57.6)**	**54.7**	**(53.7)**
Argentina	65	(60)	102.8	(95.5)	92.8	(85.2)	88.8	(81.4)
Brazil	57	(52)	100.1		64.8	(50.6)	64.8	(50.5)
China	60	(55)	98.5	(84)	79.4	(67.7)	73.6	(63.2)
India	58		94.8	(91.3)	94.8	(91.3)	94.8	(91.3)
Indonesia	65		58.2	(55.8)	59.0	(56.7)	58.6	(56.3)
Russian Federation	64	(59)	71.7	(66.6)	57.0	(52)	51.6	(46.6)
Saudi Arabia	47		65.4		65.4		65.4	
South Africa	60		34.5		18.5		12.9	
EU28	66.3	(65.9)	69.8	(69.7)	63.5	(63)	60.4	(59.9)

Source: OECD pension models

*   OECD (2019). Pension at a glance 2019: OECD and G20 indicators (p. 155). Paris: OECD Publishing.

*   https://www.oecd-ilibrary.org/social-issues-migration-health/pensions-at-a-glance-2019_b6d3dcfc-en*

Note: *These replacement rates only include entitlements from public and mandatory private pension schemes. Entitlements from voluntary pension contributions are not included.*

Chart 6 – **Gross replacement rate for men (excluding pillar 3) (2020)**

Gross replacement rate for men


Chart 8 – **Gross replacement rate for women (excluding pillar 3) (2020)**

Gross replacement rate for women
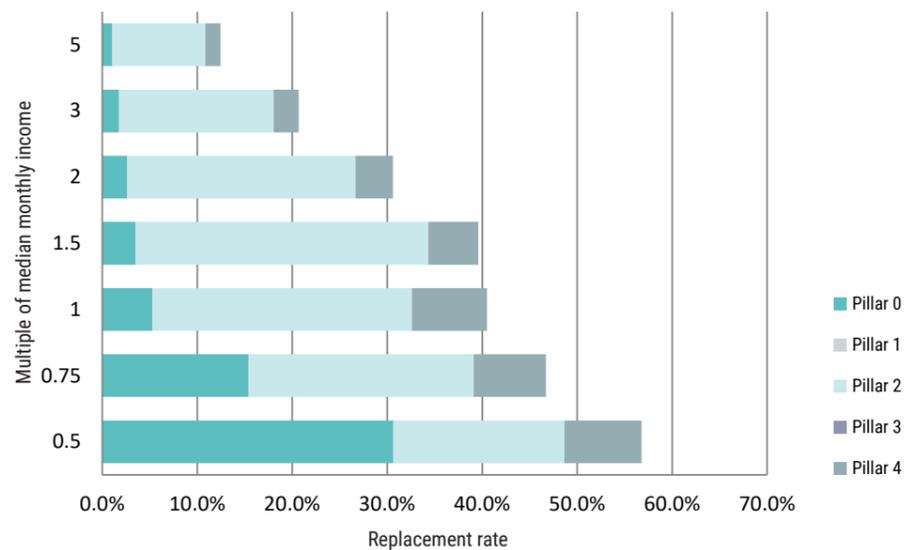
Chart 7 – **Net replacement rate for men (excluding pillar 3) (2020)**

Net replacement rate for men
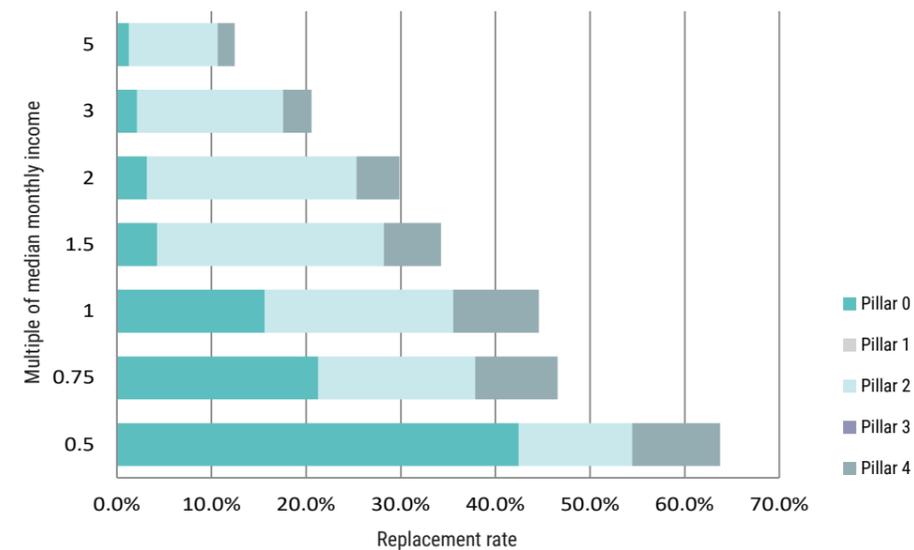
Chart 9 – **Net replacement rate for women (excluding pillar 3) (2020)**

Net replacement rate for women
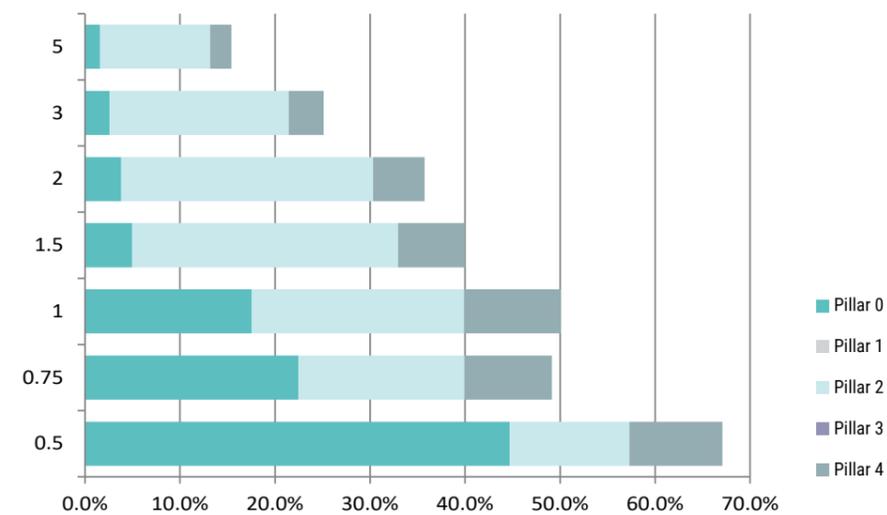
Summary

Following numerous rounds of reform, pillars 0, 2 and 4 of Hong Kong's retirement system currently yield a combined replacement rate of approximately 40% for individuals in the 3rd income quartile (upper-middle income earners). Assuming that single-person retired households in this income group have an average monthly expenditure of HK$18,000, a 40% replacement rate would equate to a monthly income of around HK$8,000–12,000 – not enough to cover monthly expenses. However, if these individuals made tax-deductible voluntary MPF contributions under pillar 3, the replacement rate would increase to around 60%, equating to a monthly income of HK$12,000–18,000. This is similar to the actual retirement expenditure reported in the Household Expenditure Survey. However, as only a limited number of individuals in this group make voluntary contributions, it would be fair to assume those without personal savings or investments are likely to be concerned about funding their retirement.

Results of questionnaire and in-depth interviews

Questionnaire results

Personal profile of respondents

Most of the respondents (85.1%) were born in Hong Kong. Half were male and half were female. The respondents were born between 1960 and 1970, with the majority (64.0%) born between 1965 and 1970. Approximately half of respondents (51.8%) lived in owner-occupied housing (public or private housing). Almost 60% had offspring who were either living in the same household or required care. Most of the respondents (63.1%) lived with their spouse. 60% lived with their children or children-in-law[17]. 28.8% of respondents had family members who required long-term care. Among these respondents, half (50.0%) had parents or parents-in-law who required long-term care. 26.6% had spouses who required long-term care, while 25.0% had children or children-in-law who required long-term care. Most of the respondents (67.2%) completed their education between Secondary grades 4 and 7 (Chart 10).

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[17] Spouses include cohabiting partners

Chart 10 – Characteristics of respondents

Sex
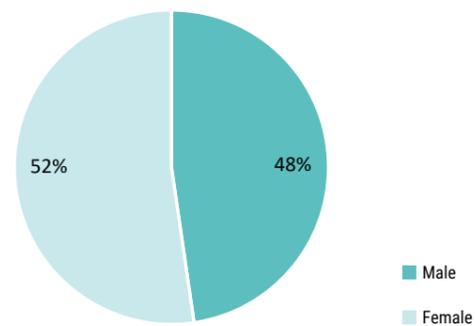
Male 48%
Female 52%

Year of birth

1960-1964 36%
1965-1970 64%

Marital status

13% Single
81% Married/cohabiting
6% Divorced/separated

Place of birth

85% Hong Kong
13% Mainland China
2% Macau/other

Education level

4% Primary school or below
17% Secondary 1–3
41% Secondary 4–5
16% Secondary 6–7
9% Post-secondary
13% University or above

Household type

52% Owner-occupied housing
43% Entire rental unit
5% Sub-divided rental unit (shared or self-contained) or other dwelling
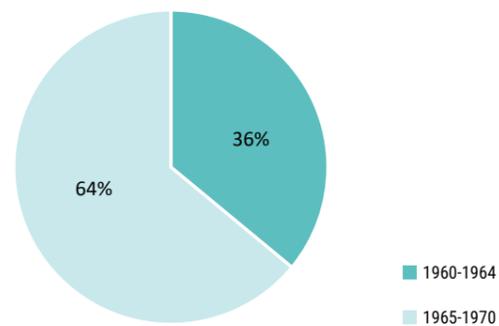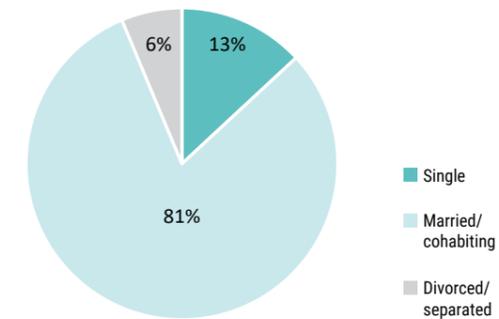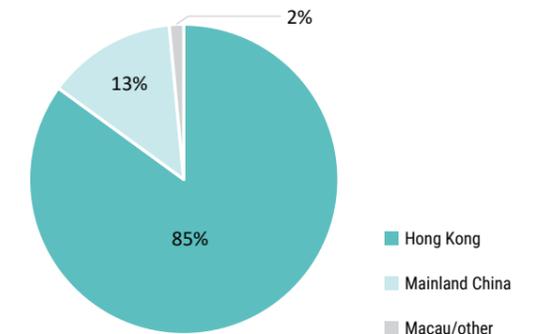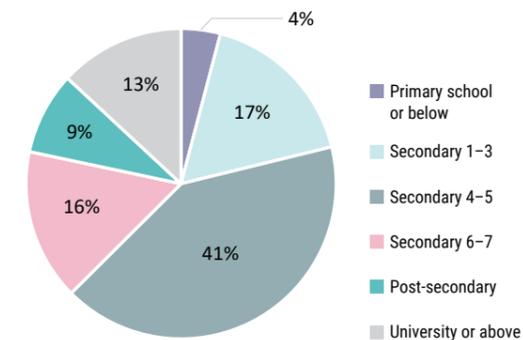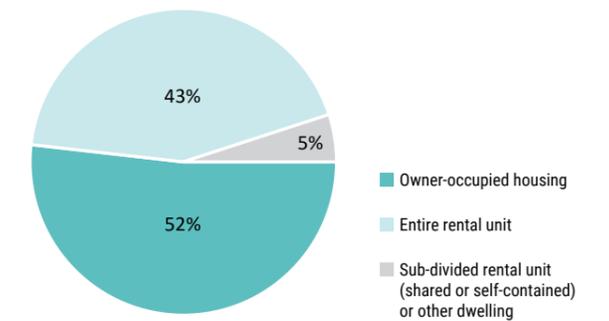
Living with offspring or have offspring who require long-term care

60% Yes (at least 1)
40% No
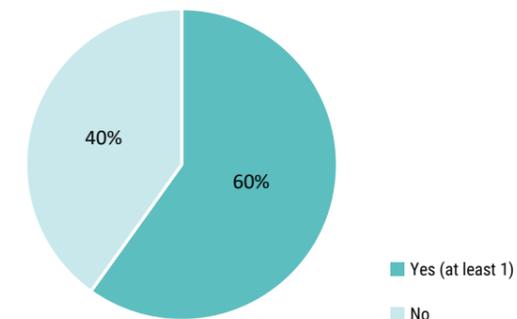
Number of other household members (excluding respondent)

28% 1
35% 2
27% 3
7% 4 or more
3% none
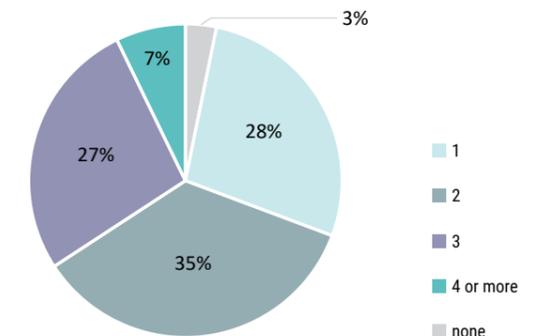
Employment profile of respondents

The vast majority of respondents were employees (90.5%). Around one quarter were employed in a professional/managerial, secretary/clerk or services/sales role. These respondents were relatively evenly distributed across a wide range of industries. Slightly over half of the respondents (55%) had an average monthly income of less than HK$24,000. Female respondents had a lower average income than male respondents (Chart 11).

Chart 11 – Employment profile of respondents

By occupation (%)
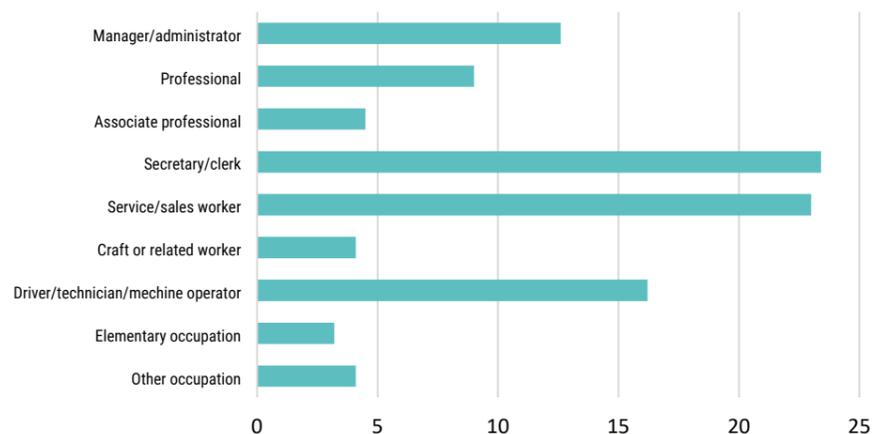
By industry (%)
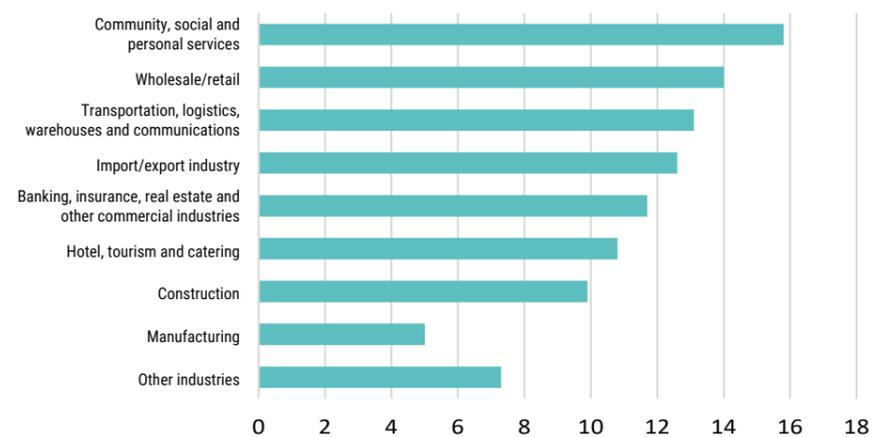
Retirement provisions

Almost all respondents had an MPF/ORSO account (94.1%) and savings (87.8%). Half had personal investments (57.7%) and private property (49.5%). Meanwhile, comparatively few respondents received children's support (34.7%) or were living in public housing (33.3%). Even fewer respondents reported purchasing a tax-deductible retirement investment product (23.9%), participating in a private pension plan (23.0%) or owning overseas property (11.3%) (Chart 12). The younger respondents were more likely to purchase tax-deductible investment products (p<0.01) (Chart 13).

Chart 12 – Retirement provisions

Retirement provision (%)
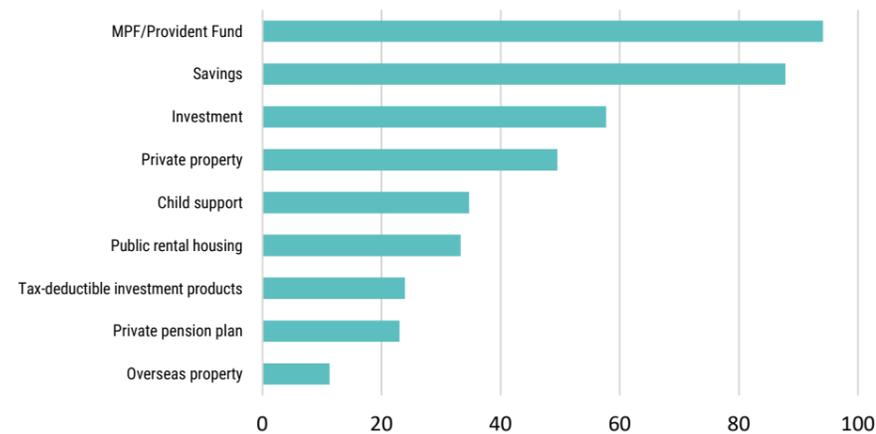
Chart 13 – Proportion of respondents who purchased tax-deductible retirement investment products (sorted by year of birth)

Proportion of respondents who purchased tax-deductible retirement investment products (sorted by year of birth)
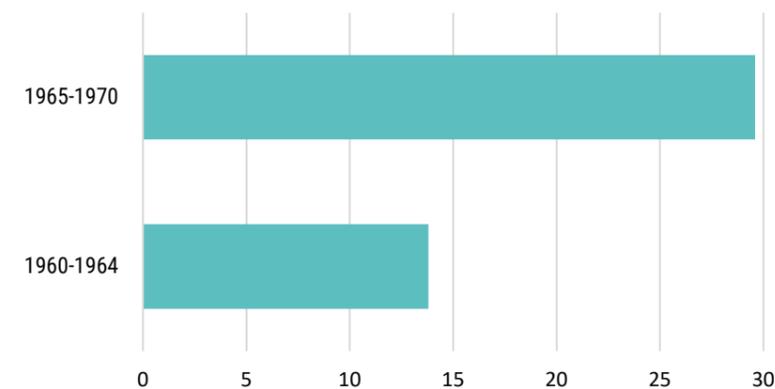
p<0.01; the statistical significance was tested by a chi-squared test.

Expected importance and adequacy of various sources of income and social services during retirement

As shown in Chart 14, a significant majority of respondents (over 70%) believed that the following sources of income and services would play an important or very important role in funding their retirement : savings (89.1%), public hospitals (83.3%), public specialist clinics (79.7%), HK$2 concessionary transport fare (79.7%), health care vouchers (75.7%), public general out-patient clinics (73.9%), private property (72.1%), and the MPF/ORSO (71.2%).

At the same time, less than half of respondents believed that the following sources of income and services would play an important or very important role in funding their retirement: private pension plans (49.2%), Social Centres for the Elderly (48.2%), child support (43.3%), and tax-deductible retirement investment products (40.6%). Even fewer respondents (29.3%) reported that overseas property would play an important or very important role in funding their retirement. In addition to savings, private property and the MPF/ORSO, respondents also attached significant importance to government-funded retirement benefits and social services.

With the exception of the HK$2 concessionary transport fare (52.3%), less than half of respondents said that the various forms of retirement support and social services would be sufficient to support their retirement. For some benefits and services, this figure was less than 10%, including the Old Age Living Allowance (9.9%), child support (9.5%) and the Old Age Allowance (8.5%). Overall, only 29 respondents (13.1%) believed that the various forms of retirement support and social services would be sufficient to support their retirement.

Chart 14 – Expected importance and adequacy of various sources of income and social services during retirement

Adequate or more than adequate   Important or very important
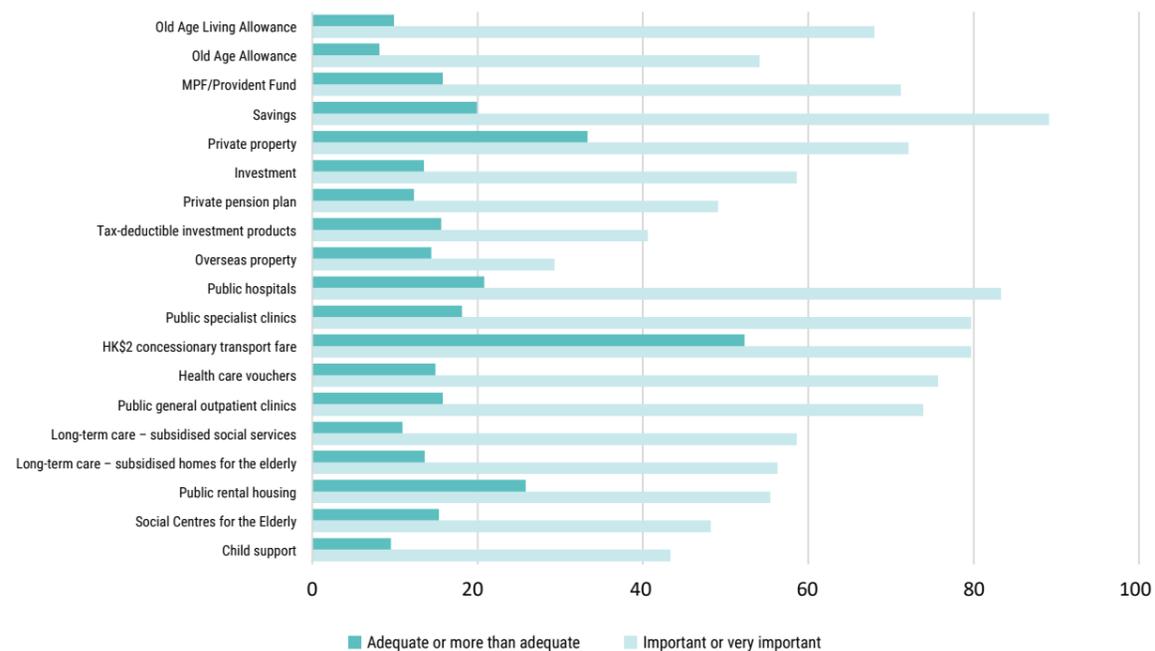
Retirement plans

As Chart 15 illustrates, only a small minority of respondents (13.5%) stated clearly when they planned to leave their current full-time job. The majority (65.3%) said that they planned to continue with their current job for as long as possible. 21.2% responded with "Difficult to say/don't know". On average, respondents who specified when they planned to leave their current job planned to do so at 61.7 years of age.

Among 77 respondents (including 30 who specified when they would leave their current job and 47 who responded with "Difficult to say/don't know"), 28.6% planned to fully retire, while 4.5% planned to find another full-time job, 29.9% planned to work part-time or find a part-time job, and 28.6% were not sure of their plans. In other words, among all respondents, only 10% of all respondents expressed clear plans to retire, while 10.3% were not sure of their plans. The remaining 80% planned to continue working, two thirds of whom wished to work full time (including those who wished to continue in their current role).

Chart 15 – Retirement plans

Retirement plans - when respondents plan to leave current job

- Continue working for as long as possible
- Difficult to say/don't know
- Do not plan to continue with current job
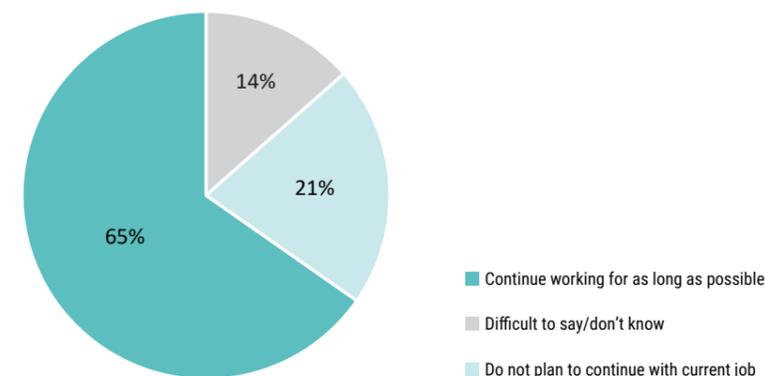
Planned type of employment after leaving current full-time position (for respondents who responded "Leave current full-time job" or "Difficult to say/don't know")

- Don't know/haven't decided
- Fully retire
- Other full-time employment
- Switch to part-time/find other part-time work

Chart 17 – Expected changes to living environment after retirement (sorted by year of birth)

■ Total   ■ 1965-1970   ■ 1960-1964

p<0.01; the statistical significance was tested by a chi-squared test.

Expected lifestyle changes post-retirement

As Chart 16 illustrates, the respondents did not expect significant changes to half of the listed factors: daily lifestyle and diet (49.5%), relationships with friends and relatives (55.9%), living environment (65.8%) and relationships with family members (66.7%). With the exception of relationships with friends and relatives and relationships with family members, the proportion of respondents who believed that the situation would deteriorate was higher than the proportion of respondents who believed that the situation would improve. The factors which respondents believed were most likely to deteriorate were financial circumstances (53.6%) and health (45.9%). 47.7% of respondents said that they did not expect significant changes to their overall circumstances, but twice as many respondents believed that their circumstances would deteriorate rather than improve (36.5% vs. 15.8%). Older respondents were more likely to believe that their living environment and overall circumstances would deteriorate after retirement (Chart 17 and Chart 18).

Chart 18 – Expected changes to overall circumstances after retirement (sorted by year of birth)

■ Total   ■ 1965-1970   ■ 1960-1964

p<0.05; the statistical significance was tested by a chi-squared test.

Chart 16 – Expected lifestyle changes post-retirement

■ Significantly worse   ■ Worse   ■ No change   ■ Better   ■ Much better
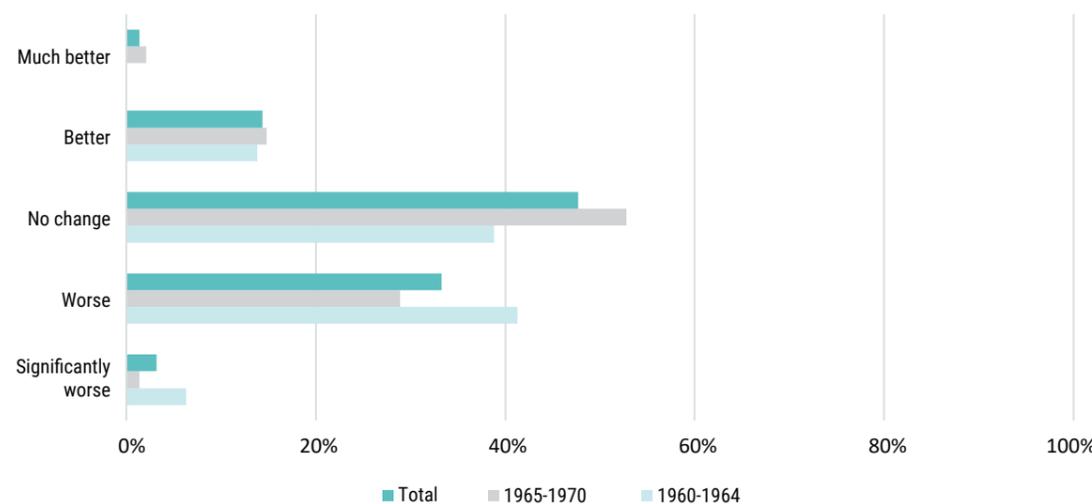
Main places of activity after retirement

In the 3 years prior to the questionnaire, Hong Kong was the primary residence of most of the respondents, as well as the main base for shopping, travel/leisure and health care. Only 11.8% of respondents reported doing most of their travel and leisure activities overseas. The respondents did not expect a significant change to their centre of activity after retirement. More respondents expected to spend a majority of their time overseas, although the overall proportion was still low (Chart 19). No significant differences were observed in terms of age, sex or family circumstances.

Chart 19 – Main base for various activities over the past 3 years (up to February 2020) and expectations for retirement

Main base for various activities over the past 3 years (up to February 2020)

Main base for various activities (after retirement)

■ 1 = Mainly Hong Kong ■ 2 ■ 3 ■ 4 ■ 5 = Mainly Overseas
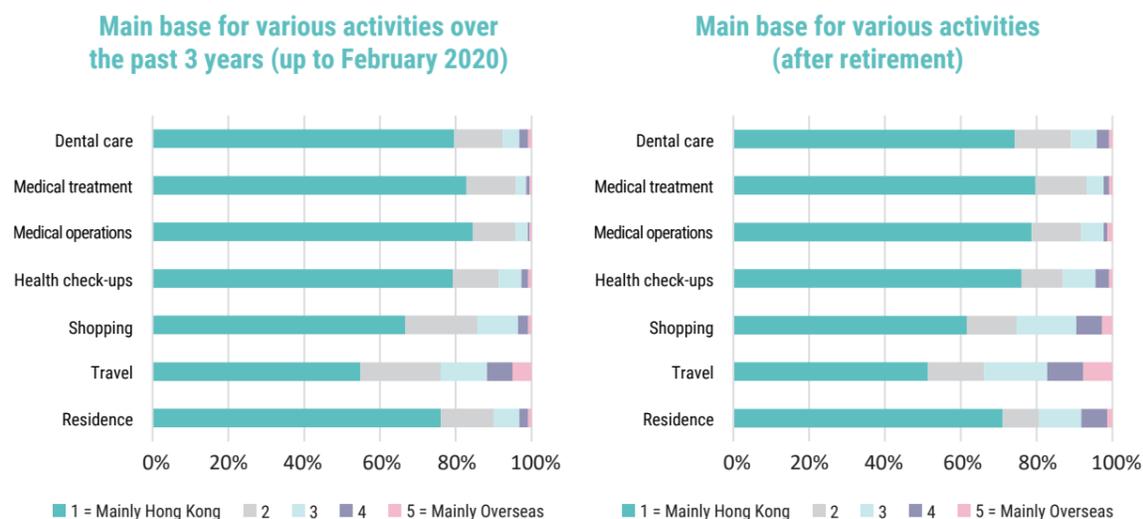
Mental well-being and quality of life over the past 4 weeks

Respondents were asked to rate each statement on a scale of 0 to 5: "Never" (0), "Rarely" (1), "Sometimes" (2), "Often" (3), "Very often" (4) and "Always" (5). As shown in chart Chart 20, 6 of the 12 statements were positive, including "I am living life to the full", "I am full of energy", "I feel calm and at ease", "I am able to make decisions", "I am able to face problems" and "I feel happy". For each of these statements, at least half of respondents chose "Often" or "Very often". The proportion of respondents choosing these answers was highest for the statements "I am able to face problems" (64.4%) and "I feel happy" (65.3%).

Respondents were also asked to rate 6 negative statements, including "I feel incapable", "I feel anxious", "I'm not able to cope with difficulties", "I'm losing confidence in myself", "I feel depressed and frustrated", and "I feel like I've hit a rock bottom". For each of these statements, around 40% of respondents answered with "Never" or "Rarely". At the same time, around a quarter of respondents chose "Often" or "Very often".

The research team reversed the scores from the 6 negative statements and added them to the scores for the 6 positive statements. The average of these scores was 3.0, indicating that the respondents often have positive feelings (Chart 20). The average score was similar for both men and women, and slightly higher for respondents who were living together with their offspring (3.1).

Chart 20 –Mental well-being and quality of life over the past 4 weeks

■ Never ■ Rarely ■ Sometimes ■ Often ■ Very often ■ All the time
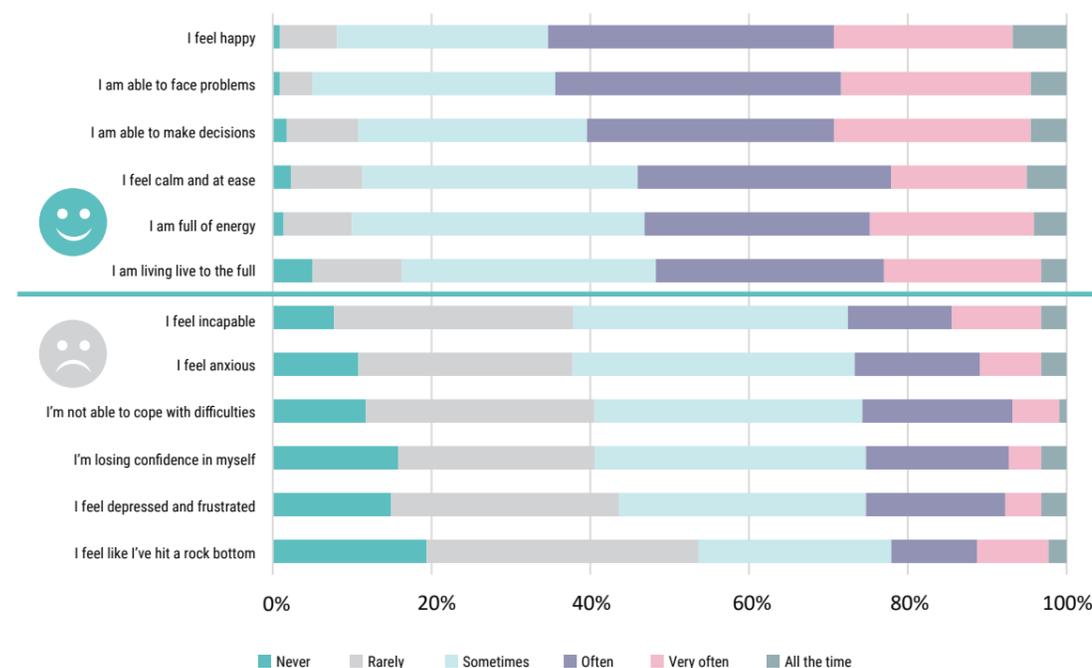
Life satisfaction

The respondents were asked to rate the statements on Likert scale of 1 to 7 (1 = Stronglydisagree, 7 = Strongly agree). Overall, the respondents tended to agree with the 5 statements related to life satisfaction, although the scores were not that high. The overall average was 4.4 – between "Neither agree nor disagree" (4) and "Somewhat agree" (5). The highest score was given to the statement "I have everything that's important to me in life" (such as a happy family, good health, etc.), which received an average score of 4.6. The statement "If I could start my life again, I wouldn't change anything" received the lowest score, with an average of 4.1 (Chart 21). The average score was higher for the younger respondents (4.5 vs 4.2), while the score for respondents living in shared or self-contained sub-divided rental units was much lower (2.8). Respondents who were living with their offspring gave a higher score than those living without their offspring (4.5 vs 4.2) (Chart 22 to Chart 24).

Chart 21 – **Life satisfaction and average scores**

Life satisfaction

Legend: Strongly disagree | Disagree | Slightly disagree | Neither agree nor disagree | Slightly agree | Agree | Strongly agree

Rows: I have everything that's important to me in life; I'm very satisfied with my life; I have a great life; I'm happy with most aspects of my life; If I could start my life again, I wouldn't change anything

Mean life satisfaction

	Mean
I have everything that's important to me in life	4.6
I'm very satisfied with my life	4.5
I have a great life	4.4
I'm happy with most aspects of my life	4.2
If I could start my life again, I wouldn't change anything	4.1
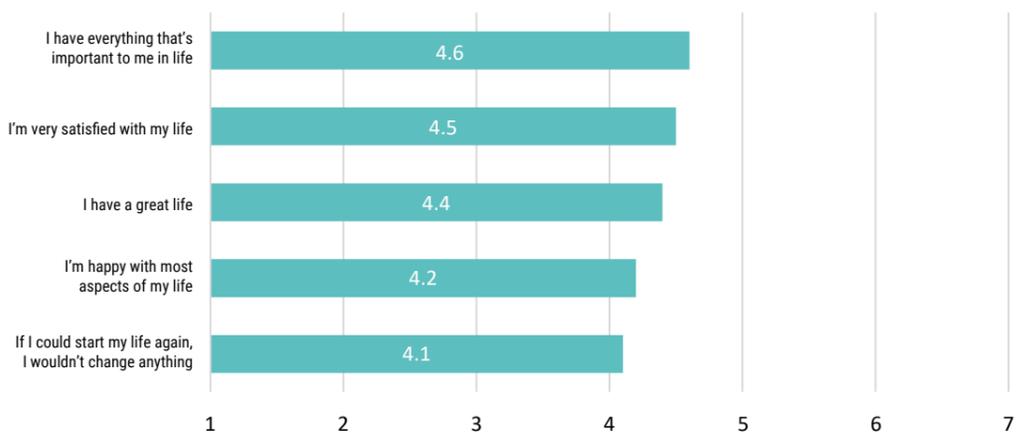
Chart 22 – **Overall life satisfaction (sorted by year of birth)**

	Mean
1965-1970	4.5
1960-1964	4.2
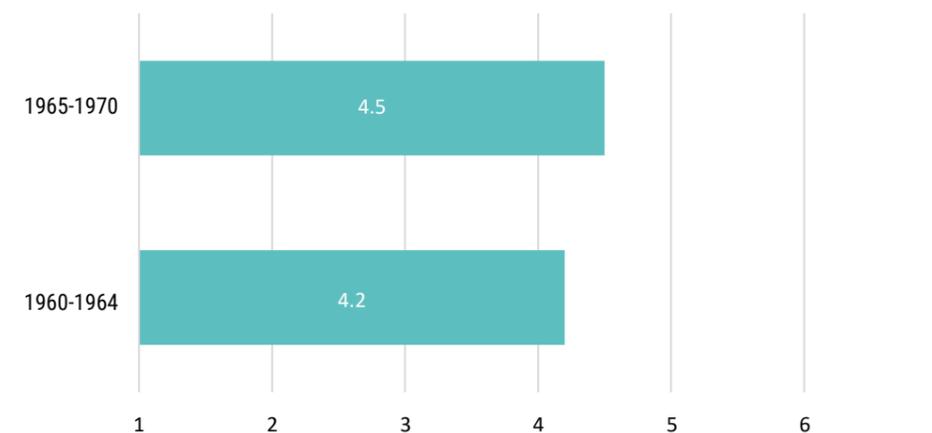
p<0.05; the statistical significance was tested by an independent-samples t-test.

Chart 23 – **Overall life satisfaction (sorted by dwelling type)**

	Mean
Sub-divided rental unit (shared or self-contained)	2.8
Entire rental unit	4.3
Owner-occupied housing	4.5
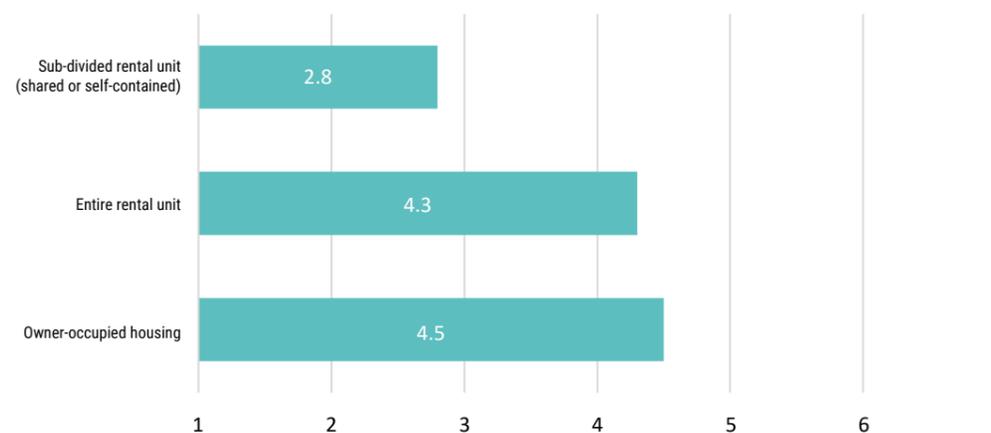
p<0.001; the statistical significance was tested by analysis of variance.

Chart 24 – Overall life satisfaction
(respondents living with offspring/having offspring who require long-term care vs
respondents not living with offspring/not having offspring who require long-term care)
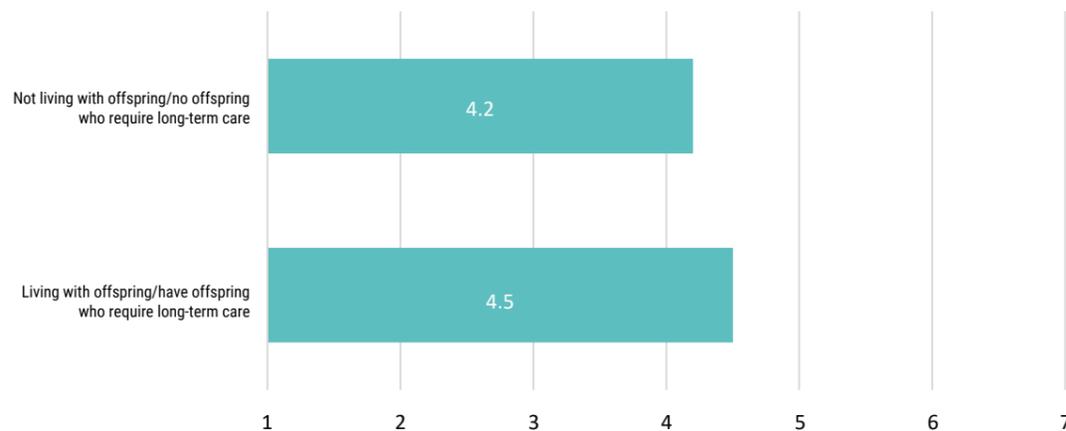
p<0.05; the statistical significance was tested by an independent-samples t-test.

Impact of the Covid-19 pandemic on the respondents' retirement plans

As shown in Chart 25, 218 of the 222 respondents completed this part of the survey. Most of the respondents (65.1%) said that their retirement plans had not been affected by the pandemic, and that they would continue to work or retire as originally planned. Almost half (45.4%) of respondents said the pandemic would result in higher health care costs in the future. However, 91.8% said that the pandemic would decrease or not affect their future expenditure on leisure activities (sport, entertainment and travel). 86.7% said that the pandemic would decrease or not affect their future expenditure on transport, while 76.2% expected to spend less or the same on food and daily necessities (such as food and clothing). Overall, 76.2% said that the pandemic would decrease or not affect their future overall expenditure.

Chart 25 – Impact of the Covid-19 pandemic on future retirement plans and future expenditure

Impact of the Covid-19 pandemic on the respondents' retirement plans
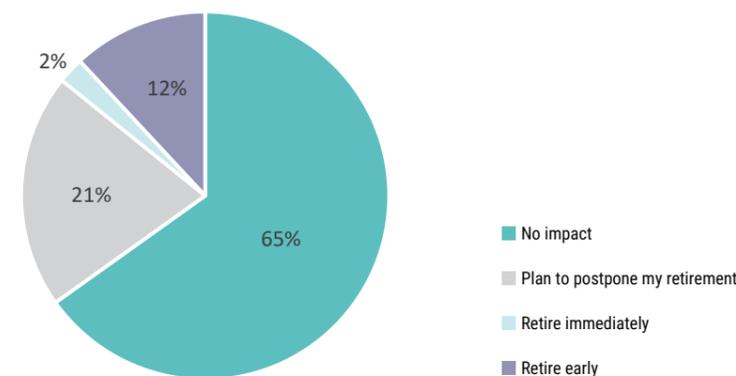
Impact of the Covid-19 pandemic on future expenditure
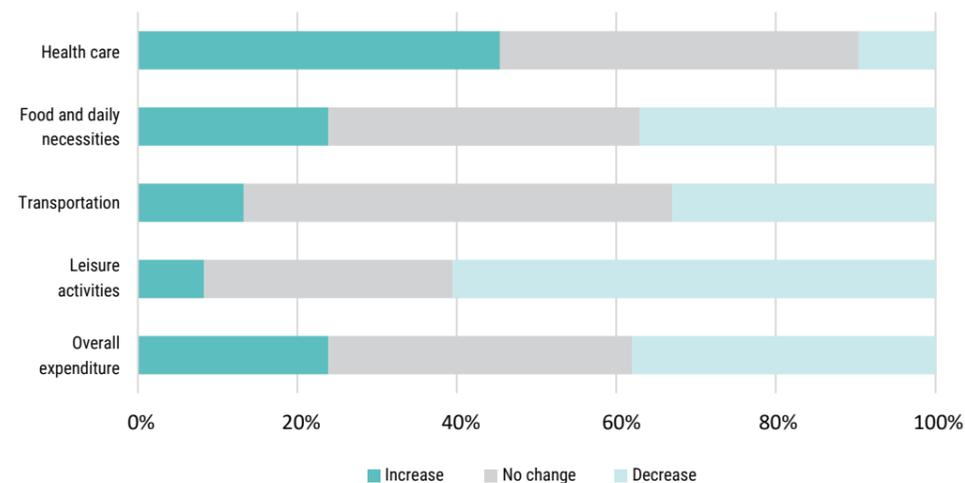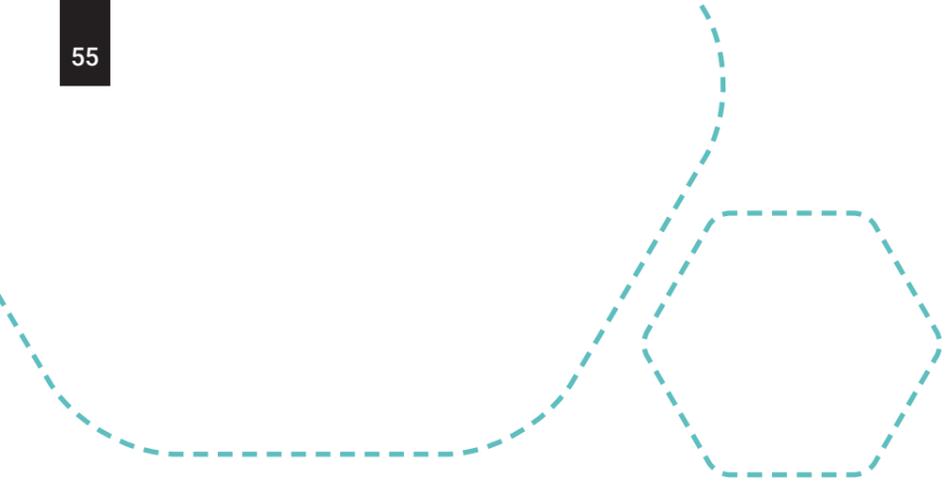
Reported state of health

As shown in Chart 26, more than half of respondents (59.5%) described themselves as "very healthy" or "healthy", while 35.6% described their state of health as "average". Approximately 80% of respondents said that they did not have any physical limitations, while the remaining 20.7% reported physical limitations including mobility issues (11.7%) and impaired vision (9.0%). As shown in Chart 27, three quarters of respondents did not have a chronic condition. The chronic conditions reported by the remaining 25.7% included hypertension (14.9%) and high cholesterol (10.8%). Female and older respondents were more likely to report physical limitations, while male and older respondents were more likely to have a chronic condition.

Chart 26 – Current health status of respondents

Current state of health (%)

Very healthy	Healthy	Average	Not optimal	Poor
8	52	36	4	1

- Very healthy
- Healthy
- Average
- Not optimal
- Poor
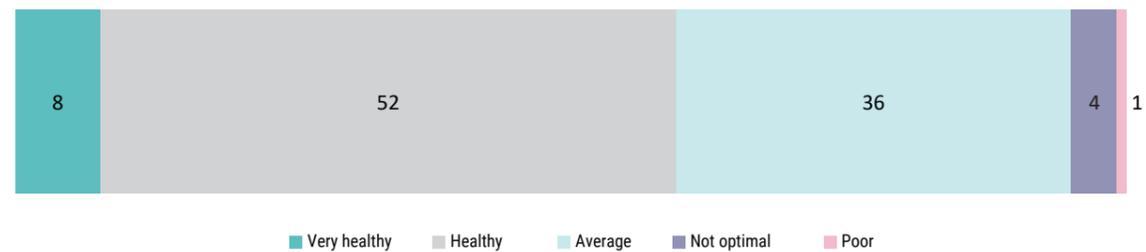
Chart 27 – Physical limitations and chronic conditions reported by respondents

Physical limitations (%)
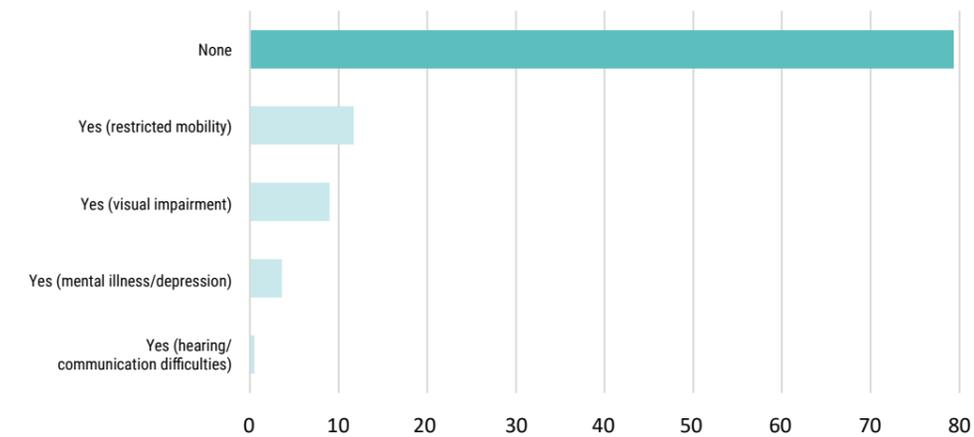
Physical limitations (%)
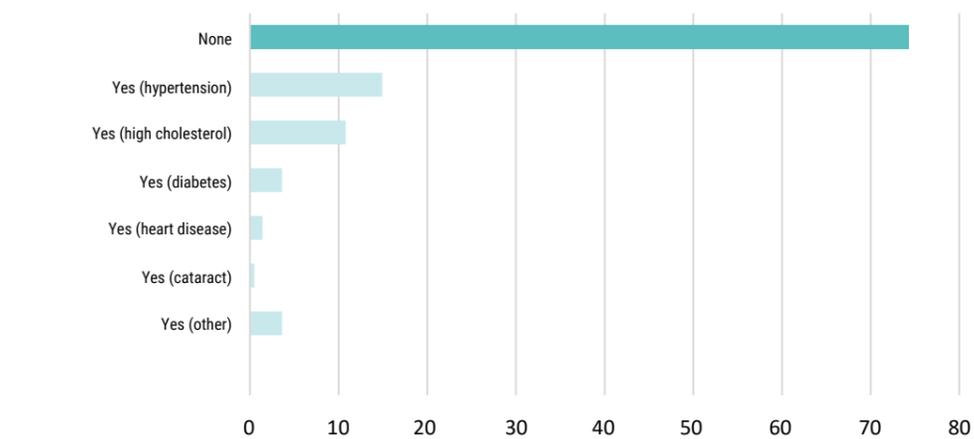
**Results of in-depth interviews**
Profile of respondents

Chart 28 – Profile of respondents

- Male ■ Female
- Offspring ■ No offspring
- Own property ■ No property
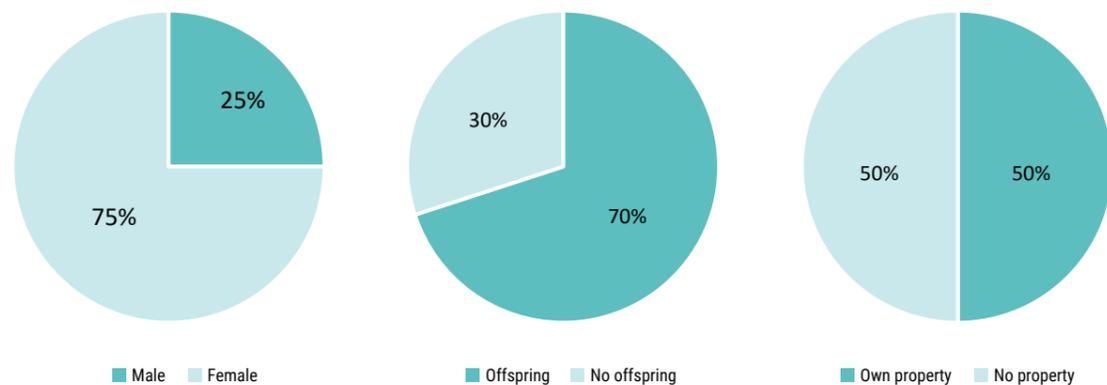
Retirement readiness and plans

1) Planned retirement age (Chart 29): The respondents had different opinions on their expected retirement age – more than half hoped to retire between 60 and 65, while some respondents had no plans to retire and wished to continue working for as long as possible.

Chart 29 – Planned retirement age

- ■ < 60
- ■ 60-64
- ■ 65
- ■ 66-70
- ■ Work for as long as possible
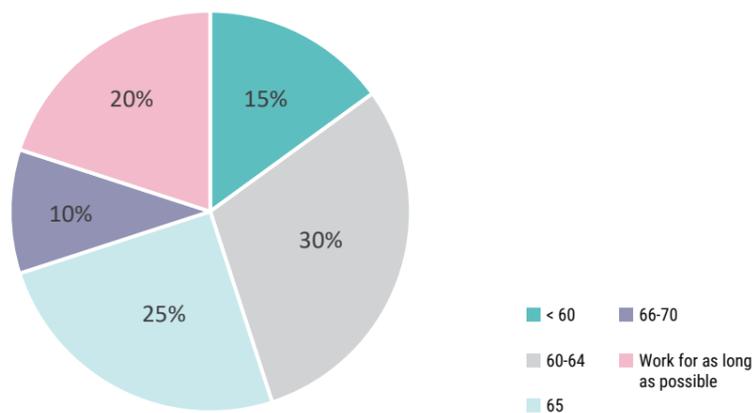
2) Post-retirement employment: Most respondents planned to work part-time after retirement to help fund their lifestyle. This was similar to the results of the questionnaire, in which most respondents reported that they hoped to continue working.

3) Retirement plans (Chart 30): Most of the respondents planned to fund their retirement with their MPF, savings and investments, while half owned their own property. Most respondents had 2–3 sources of retirement income, although for many of the respondents this only included their MPF account and savings.

Chart 30 – Sources of retirement income

Retirement provision
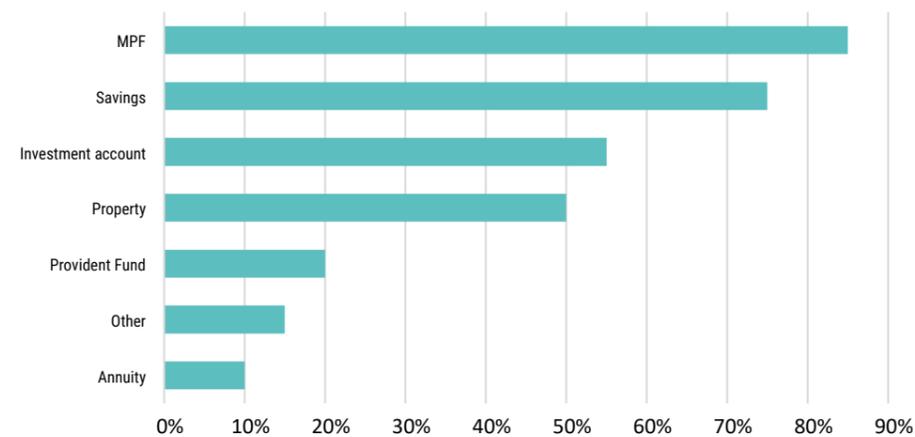
Retirement provision
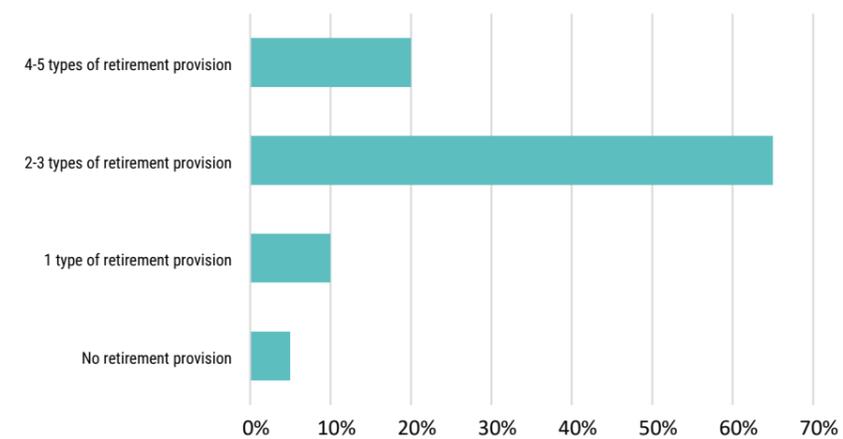
4) Efficacy of retirement plans: 90% of respondents stated that their existing retirement provision would help to fund their retirement to some degrees. 10% of respondents said that their existing retirement provision would not help to fund their retirement. The results indicate the efficacy of the retirement plan was limited.

5) Retirement readiness: More than half of respondents said that they had not made adequate preparations for retirement. Some of the respondents said that they had not made any detailed plans.

6) Suitable retirement provision: The respondents had different opinions on how to fund their retirement. Most hoped to be able to draw a stable return and income in order to fund their everyday living expenses. 40% of respondents were wary about high-risk investments, while some respondents believed that savings were the best way to fund their retirement. Some respondents hoped to delay their retirement, while others had not made any specific plans.

Expectations of retirement

Changes in expenditure: Overall, the respondents expected health care to be their biggest expense after retirement. 85% of respondents listed health care in the top three expenses, while 65% expected health care to be their largest expense. After health care, the largest expenses were listed as housing and miscellaneous household goods. This corresponds to the results of the 2014/15 Household Expenditure Survey, which listed these categories as the largest expenses for elderly households (Chart 31).

Table 19 describes the respondents' expected changes to their household expenditure after retirement. 60% of respondents said that the aforementioned expenses would account for more than half of their post-retirement expenditure.

Chart 31 −Three largest items of expenditure after retirement

Three biggest expenses after retirement
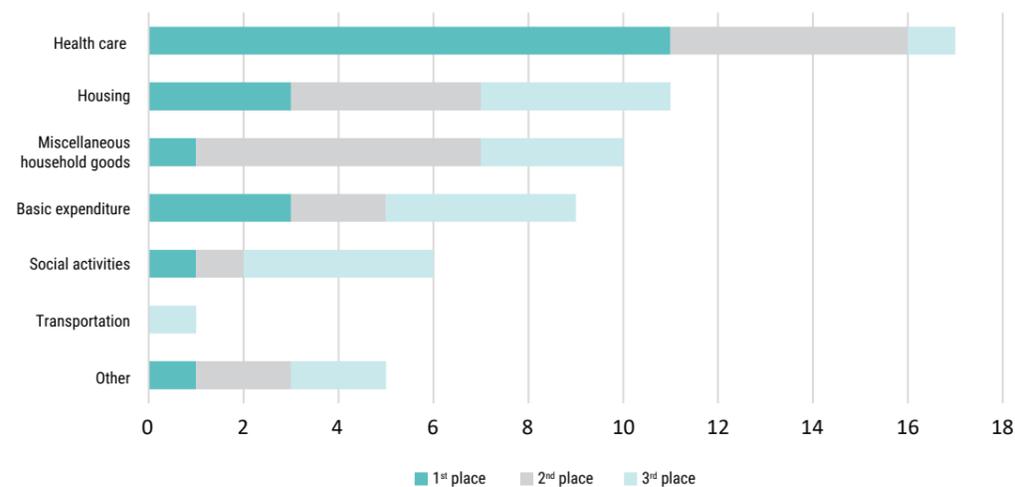
Table 19 − Respondents' expected changes to their household expenditure after retirement

Housing	With the exception of property-owning respondents who expected their housing expenses to decrease or stay constant after retirement, many of the respondents expected their housing expenses to increase due to higher rents, inflation and property maintenance costs.
Basic necessities	Most of the respondents believed that there would not be a large increase or decrease in the cost of basic necessities. The main reason given for increased costs was inflation.
Transportation	As people aged 65 and above are eligible for the HK$2 concessionary transport fare, the vast majority of the respondents said that their transport costs would be lower after retirement. The respondents also expected to make fewer trips, further reducing their transport costs.
Miscellaneous household goods	Most respondents expected to spend more on miscellaneous household goods due to the need to employ domestic/care workers, increased use of water, electricity and gas, and inflation.
Health care	Most people expected their health care costs to increase due to more frequent use of health care services and a deterioration in their state of health.
Social activities	Overall, the respondents expected their expenditure on social activities to drop due to spending more time at home. However, some respondents expected to spend more time travelling and eating out with friends, and therefore expected their expenditure in this category to increase.
Other	The respondents expected other expenses to increase or decrease depending on whether they would need to care for their children and/or parents or whether they would be faced with any unexpected costs.

1) Impact of the pandemic on retirement plans: Most of the respondents said that Covid-19 would not affect their retirement plans or expenditure. The only potential impacts stated by the respondents were an increase in health care costs and inadequate savings. These responses were similar to the results obtained from the questionnaire.

2) Amount of savings required to fund retirement: The responses varied significantly, from as high as HK$30 million (possibly due to a higher expected standard of living) to as low as HK$500,000 (possibly reflecting insufficient planning for retirement). Most respondents were aiming to save between HK$4 and 7 million.

3) Expected changes to standard of living: Most respondents said they had an average or slightly higher than average standard of living before retirement, but after retirement they expected to have an average or slightly lower than average standard of living. Around half of respondents expected to be able to maintain their pre-retirement standard of living, while the other half said that they would not be able to do so.

4) Bridging the shortfall in income: Most planned to bridge the shortfall in income by reducing spending on clothing and food, cutting back on shopping or using savings.

5) Living overseas: Most respondents expected to remain in Hong Kong for their retirement. Among those planning to retire overseas, Mainland China and Canada were the most popular destinations. The main reasons for relocating were having relatives based overseas, a lower cost of living and having more free time.

6) Almost half of respondents did not plan to do any spending overseas. The reasons given for staying in Hong Kong included being accustomed to the Hong Kong way of life, the need to care for family members, and financial reasons. Among those who planned to spend overseas, the reasons included cheaper prices and more free time after retirement.

Retirement concerns

85% of respondents said that they were concerned about their retirement. The greatest concerns included health, a change in financial circumstances, a deterioration in family relations, and getting used to life after retirement. The respondents were concerned that they would not be able to afford an increase in health care costs after retirement. Some were worried about a lack of savings, the political situation, a deterioration in family relations and how long it would take to become accustomed to life after retirement. The remainder of the respondents had not given any thought to how their lifestyle might change, and reported no concerns.

Feedback and suggestions on Hong Kong's retirement policies

The respondents provided the following feedback and suggestions:

1) Views on the current retirement protection system: The vast majority of the respondents said that the current retirement protection system was inadequate. Some stated that some government benefits such as the Old Age Living Allowance and health care vouchers were not sufficient. According to the respondents, people could not expect to rely entirely on social security alone to fund their retirement, and needed to start saving from a young age. In addition, the respondents believed that the MPF could only benefited a certain number of people. Some respondents said that their MPF contributions would not be sufficient to fund their retirement and that MPF management fees were too high. Some also said that the MPF offsetting mechanism was unfair, and that they should be able to claim all of their contributions upon retirement, including those paid by their employers, instead of allowing employers to offset contributions against Long Service Payments and Severance Payments. It can therefore be assumed that these respondents hope to see the withdrawal of the MPF offsetting mechanism as soon as possible.

2) Recommended government measures
   a) Health care system: Reduce waiting times at public hospitals.
   b) Retirement age: Increase the retirement age to allow people to continue working.
   c) Elderly support: Although current provision is adequate, the government could do more to enhance welfare for the elderly, including increasing the Old Age Living Allowance, providing more homes for the elderly and increasing the amount of health care vouchers.
   d) Retirement protection: Provide more resources for retirement protection schemes and ensure that retirement-oriented investment products are subject to stricter regulation and provide a better rate of return.

3) Recommended measures for private pension plans and retirement products:
   a) Education and promotion: Conduct more promotion of existing retirement products to encourage higher levels of participation.
   b) Barriers to entry: Lower barriers to entry to enable more people to benefit.
   c) Investment choices: Provide more low-risk products with relatively high returns.
   d) MPF management fees: Reduce management fees.

The government and the MPFA are currently implementing these measures or have plans to do so in the future. The implementation of these measures will help meet the expectations of the general public.

Summary

The following table provides a summary of the key finding:	Online questionnaire	In-depth interviews
Retirement protection	▪ The respondents attached significant importance to government-funded retirement benefits and health care services. ▪ Only 20% of respondents believed that the various forms of government-backed support, including the MPF, social security and public health care would be sufficient to fund their retirement. ▪ Many respondents said that owning their own property or living in public housing would provide a sufficient level of cover during retirement. Only half of respondents were property owners. ▪ Although most respondents believed that the various forms of government-backed support were important, very few believed that these alone would be sufficient. This suggests that most respondents would like to receive more support. ▪ The HK$2 concessionary transport fare was the measure which respondents were most likely to believe would be sufficient.	▪ The vast majority of the respondents said that the current retirement protection system was inadequate. According to these respondents, some government benefits such as the Old Age Living Allowance and health care vouchers were not sufficient. ▪ The respondents believed that the MPF could only benefited a certain number of people.
Retirement plans	▪ Most respondents hoped to continue working in their current full-time job for as long as possible. ▪ Only around 10% were planning to fully retire. ▪ The other respondents hoped to pursue other full-time employment or work part-time.	▪ Most respondents hoped to continue working to help fund their lifestyle. ▪ Over half said that they had not made sufficient preparations for retirement, and most had not made any retirement plans. ▪ Most hoped to be able to earn a stable return and income in order to fund their everyday living expenses.

The following table provides a summary of the key finding:	Online questionnaire	In-depth interviews
Expected lifestyle changes post-retirement	▪ Many respondents expected their health and financial circumstances to deteriorate after retirement, while only a minority of respondent expected their personal relationships (e.g. with friends and family) to deteriorate. ▪ Older respondents were more likely to believe that their living environment and overall circumstances would deteriorate after retirement.	▪ All respondents believed that they currently had an average or above-average standard of living, but half expected this to drop to an average or below-average standard of living after retirement. ▪ Most respondents said that they were concerned about their retirement. Many were concerned that they would not be able to afford an increase in health care costs after retirement. Others were worried about a lack of savings, the political situation, a deterioration in family relations and how long it would take to become accustomed to life after retirement.

The following table provides a summary of the key finding:	Online questionnaire
Mental well-being, quality of life and life satisfaction	▪ Many respondents rated their mental well-being and quality of life as poor (22% and 48% respectively), suggesting that these respondents had a rather pessimistic outlook on life. ▪ Overall, the respondents rated their life satisfaction as average. Younger respondents gave a higher score on average, while respondents who were living with their offspring gave a higher score than those living without their offspring. Respondents living in shared or self-contained sub-divided rental units gave a much lower score.
State of health	▪ Most of the respondents rated their health as good (i.e. no physical limitations or chronic conditions). ▪ Female and older respondents and people living in sub-divided housing were more likely to report physical limitations. Chronic conditions were more common among male and older respondents and people living in sub-divided housing.

Overall, the vast majority of the respondents were employees. Apart from MPF contributions and savings, the respondents who were employees were generally not interested in other types of investments. This suggests that they have a limited income and disposable capital, and that they do not necessarily have the means to invest in high-risk, high-return pension plans. The respondents expected to depend mostly on public health care services and government-funded retirement benefits and social services, but admitted that the current pension system would not be sufficient to fund their future retirement. Most of the respondents said that they were in a good state of health. The results demonstrate why most of the respondents had no immediate plans to fully retire, and even planned to continue in their current job if possible. As most of the individuals in the 3rd income quartile did not have sufficient retirement provision, they would find it difficult to maintain their current standard of living if they chose to fully retire. These respondents were very concerned about their retirement, especially with regard to health care and their financial circumstances.

The respondents hoped that the government would improve the health care system, including reducing waiting times at public hospitals. Although some respondents said that current government provision was adequate, they said that the government could do more to improve welfare for the elderly, including increasing the Old Age Living Allowance, providing more homes for the elderly and increasing the amount of health care vouchers. Some people also hoped that the government would increase funding for the pension system and ensure that retirement investment products are subject to stricter regulation and provide a better rate of return.

In terms of the private pension market, the respondents also made a number of suggestions, including education and promotion, lowering barriers for entry, providing low-risk products with relatively high returns, and reducing MPF management fees.

5

CONCLUSIONS
AND SUGGESTIONS

Conclusions of study

Expenditure of elderly households

The primary subjects of the study were working individuals aged 50−59 in the 3rd income quartile. In order to estimate their post-retirement expenditure, the research team referred to the 2014−15 Household Expenditure Survey published by the Census and Statistics Department and analysed the expenditure figures for households consisting entirely or mainly of elderly individuals. The research team focused particularly on middle-income households. However, it is reasonable to assume that many middle/upper-middle income elderly households in the survey still had income from employment. As a result, the research team also analysed the expenditure of elderly households earning below the median income, as this may be a better reflection of how much middle-income households may spend after full retirement.

Among all household types, the biggest items of expenditure were: **1)** groceries; **2)** housing, water and electricity, **3)** eating out; and **4)** health care. Housing, water and electricity was the biggest expense for all income groups and household types, and increased with income. Spending on groceries did not increase significantly with income, unlike eating out − spending in this category was significantly higher for households with a higher income. Almost all households reported expenditure for the four categories listed above. For health care, however, only around half of households reported expenditure. After excluding households with no reported expenditure, average health care expenditure was similar for low-income and lower-middle income households. This can be attributed to the widespread use of public health care services among these groups. However, health care expenditure was almost twice as

high among upper-middle income and high-income households, presumably due to their increased use of private health care services.

Among the primary subjects of this study (i.e. upper-middle income households), households consisting entirely of elderly members reported an average monthly expenditure of approximately HK$20,000, of which housing, water and electricity accounted for just over HK$10,000, and health care approximately HK$2,000 (excluding households who did not report any health care expenditure). Total food spending amounted to just over HK$4,000. On a per-capita basis, the average expenditure of elderly households was approximately HK$12,000, compared with HK$15,000 for single-person elderly households.

Assuming annual inflation of approximately 2% since 2014/15, expenditure levels for 2020/21 would be 10% higher than the reported figures. For the upper-middle income group, this would mean an average monthly expenditure of approximately HK$22,000 for elderly households, and HK$18,000 for single-person elderly households. In the 2014/15 survey, the average monthly expenditure of lower-middle income elderly households was HK$13,000, or HK$8,000 per capita (table 9). Adjusted for inflation, the equivalent figures for 2020/21 would be HK$14,300 (household average) and HK$ 8,800 (per-capita average).

Income replacement rates

Following numerous rounds of reform, pillars 0, 2 and 4 of Hong Kong's retirement system currently yield a combined replacement rate of approximately 40% for individuals in the 3rd income quartile. Assuming that single-person retired households in this income group have an average monthly expenditure of HK$18,000, a 40% replacement rate would equate to a monthly income of around HK$8,000−12,000 − similar to the expenditure of lower-middle income elderly households. However, if these individuals made tax-deductible voluntary MPF contributions under pillar 3, the replacement rate would increase to around 60%, equating to a monthly income of HK$12,000−18,000 − similar to the actual retirement expenditure of upper-middle income households. However, as only a limited number of individuals in this group make voluntary contributions, it would be fair to assume those without personal savings or investments would not be able to maintain a standard of living equal to those in the upper-middle income group. These individuals therefore have significant concerns about funding their retirement.

Results of questionnaire and in-depth interviews

The questionnaire surveyed 222 working individuals aged 50−59 in the 3rd income quartile. There was an equal number of male and female respondents. Most of the respondents had a secondary education, 80% were born in Hong Kong, two-thirds were aged 50−54, and 80% were married. Half of the respondents cared for their parents or parents-in-law. Two-thirds of the respondents worked as a "secretary/clerk", "service/sales assistant" or "driver/technician/mechanic". Half owned private property, one third lived in public housing, and 60% had investments. The younger respondents were more likely to purchase tax-deductible investment products. In addition to savings, private property and the MPF/ORSO, respondents also attached significant importance to government-funded retirement benefits and health care services. Only 20% of people believed that the various forms of government-backed

support, including the MPF, social security and public health care would be sufficient to fund their retirement. However, many respondents said that owning their own property (33.5%) or living in public housing (25.8%) would provide a sufficient level of cover during retirement. The HK$2 concessionary transport fare was the measure which respondents were most likely to believe would be sufficient (52.5%).

Most respondents hoped to continue working in their current full-time job for as long as possible. Only around 10% planned to fully retire, while the other respondents hoped to pursue other full-time employment or work part-time.

Many respondents expected their health and financial circumstances to deteriorate after retirement, while only a minority of respondents expected their personal relationships (e.g. with friends and family) to deteriorate. Older respondents were more likely to believe that their living environment and overall circumstances would deteriorate after retirement.

Many respondents rated their mental well-being and quality of life as poor (22% and 48% respectively, with "poor" corresponding to a rating of 0-2 on a 5-point scale). This suggests that these respondents had a rather pessimistic outlook on life. Overall, the respondents rated their life satisfaction as average (4.4). The average score was higher for the younger respondents (4.5 vs 4.1), while the score for respondents living in shared or self-contained sub-divided rental units was much lower (2.4). Respondents who were living with their offspring gave a higher score than those living without their offspring (4.5 vs 4.1).

Most of the respondents said that their retirement plans had not been affected by the Covid-19 pandemic, but some believed that the pandemic would increase their overall expenditure, especially in terms of health care and daily necessities.

Most the respondents rated their health as good (i.e. no physical limitations or chronic conditions). Female and older respondents and people living in sub-divided housing were more likely to report physical limitations. Chronic conditions were more common among male and older respondents and people living in sub-divided housing.

Of the 20 respondents who completed an in-depth interview with the research team, over half said that they had not made sufficient preparations for retirement, and most had not made any retirement plans. Most hoped to be able to earn a stable return and income in order to fund their everyday living expenses. The respondents believed that they currently had an average or above-average standard of living, but many expected this to drop to an average or below-average standard of living after retirement.

17 respondents said that they were concerned about their retirement. Many were concerned that they would not be able to afford an increase in health care costs after retirement. Others were worried about a lack of savings, the political situation, a deterioration in family relations and how long it would take to become accustomed to life after retirement. Their four biggest concerns about retirement were: **1)** Health; **2)** Financial circumstances; and **3)** A deterioration in family relations, and getting used to life after retirement (both in 3rd place).

The vast majority of the respondents said that the current pension system was inadequate. They stated that some government benefits such as the Old Age Living Allowance and health care vouchers were not sufficient. In addition, the respondents believed that the MPF/ORSO could only benefited a certain number of people. The respondents hoped that the government would improve the health care system, including reducing waiting times at public hospitals. Although some respondents said that current government provision was adequate, they said that the government could do more to improve welfare for the elderly, including increasing the Old Age Living Allowance, providing more homes for the elderly and increasing the amount of health care vouchers. Some people also hoped that the government would increase funding for the pension system and ensure that retirement- investment products are subject to stricter regulation and provide a better rate of return.

Overall, most of the people in the 3rd income quartile did not have sufficient retirement provision and therefore they would find it difficult to maintain their current standard of living if they chose to fully retire. These respondents were very concerned about their retirement, especially with regard to health care and their financial circumstances.

Recommendations

Among the main subjects of this study (individuals in the 3rd income quartile approaching retirement), most had not made sufficient preparations for retirement and were concerned about the future, stating that they would not be able to maintain their current standard of living in old age. This group of people is often overlooked by the rest of society, and the pressures that they face have the potential to cause social problems in the future.

The results of the replacement rate calculations show that after a 40-year career, these individuals can expect to have a replacement rate of 38–46% from the current pillars of the retirement protection system (depending on income and sex), a level which is not sufficient to maintain their current standard of living. According to the 2014–15 Household Expenditure Survey, the biggest expenses for elderly households were food, housing and health care. This correlates with the expectations of the respondents reported during the in-depth interviews. After retirement, if the respondents were only able to maintain a standard of living equivalent to that of a lower-middle income household, this would equate to an average

per-capita monthly expenditure of HK$8,000 based on the expenditure reported by elderly households in the Household Expenditure Survey, or almost HK$10,000 at 2020 prices. Food, housing and health care accounted for around 90% of total expenditure, and it would be reasonable to assume that the respondents will rely primarily on the public health care system. However, as many of the respondents approaching retirement had only made 20 years of MPF contributions (25–35 years by the time they reach 65), their retirement income will be lower than the aforementioned replacement rate.

As a result, most of the respondents said that they had no plans to retire and hoped to continue working. Only a small minority of respondents planned to stop working altogether after retirement. Considering the respondents' concerns and a lack of preparedness for retirement, the research team has drawn up a list of recommendations, which in addition to improving the retirement of this group of individuals would also help boost overall retirement provision for people in other income groups.

Key pillars of pension system

Improve social security

The research team came up with a number of recommendations for each key pillar of Hong Kong's pension system. Firstly, the fastest way to improve the post-retirement livelihoods of this income group would be to focus on the social security pillar. In 2020, the government announced that it would relax the eligibility criteria for the Old Age Living Allowance and give all claimants the higher allowance (HK$3,715 in 2020). However, in its latest policy address the government stated that it would need to reassess the time frame for implementing the relevant measures[18]. The research team therefore urges the government

to implement these measures as soon as possible to allow people in the 3rd income quartile group (especially those with no retirement provision) to claim the Old Age Living Allowance and improve their livelihoods during retirement. The research team also recommends lowering the age at which the elderly can claim the Old Age Allowance to 65. Although this would require increased spending, the increase would be cushioned by deferring the Old Age Living Allowance for some people. The government could also consider a simplified declaration for application of all residents aged 65 or above with assets of less than HK$2 million to claim the Old Age Allowance.

Continue to improve the MPF system

For individuals in the 3rd income quartile, the MPF scheme is the most important pillar of their retirement income. For these individuals, the MPF scheme alone yields replacement rate of 20%-28% after a 40-year career. However, the general public only has limited knowledge of managing their MPF account and tends to be sceptical about the level of cover that it will provide during retirement. Some respondents commented that the MPF scheme did not provide a stable return and that management fees were too high, despite that numerous reforms in recent years, such as the introduction of a fee-controlled Default Investment Strategy, the Employee Choice Arrangement (ECA) and the planned implementation of the eMPF Platform have reduced MPF fees. It is therefore essential to increase employees' awareness of their MPF investment plan in order to have better control over risk and higher returns. As public education is one of the key missions of the Mandatory Provident Fund Schemes Authority (MPFA), the research team urges the MPFA to raise awareness among different income groups and encourage employers (especially large companies) to inform their employees about the various MPF options and how to improve optimise their MPF portfolios.

On the other hand, continued improvements to the MPF schemes could enhance overall retirement provision. In terms of government action, this includes revoking the offset of long service payment against MPF at the earliest opportunity, as well as monitoring and publishing the fee reduction following the launch of the eMPF Platform and other measures. The research team also suggests that the MPFA to continue to encourage the launch of more innovative fund choices that generate stable returns, so as to meet a diverse range of retirement needs. In the long term, the MPFA could also consider requiring MPF providers to provide an annuity-like option that allows investors to convert some of their funds into an annuity upon retirement and draw a stable monthly income. Insurance products could also be integrated into the MPF scheme to provide people with more flexible options.

Incentive measures

In recent years, the government has launched a number of policies to improve pillar 3 voluntary pension schemes and boost retirement savings and income, including the HKMC Annuity Plan, tax-deductible retirement products (Tax-deductible Voluntary Contributions and Qualifying Deferred Annuity Policies), the Reverse Mortgage Programme, and the Silver Bond scheme. However, the uptake of these schemes is low, as they are generally targeted at high-income earners. The research team recommends that the government to monitor the uptake of these schemes among different income groups and ensure that they attract enough individuals from the 3rd income quartile. In addition, the government could introduce more products targeted at middle-income individuals that offer tax benefits and a stable return.

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[18] Chapter 8 of the Supplement to the Chief Executive's Policy Address (page 100) states that "In light of the financial implications of combining the Normal and Higher OALA and relaxing eligibility requirements, the timing of implementation will be reassessed".
[19] Qualifying Deferred Annuity Policy

According to the research team's recommendations, the MPFA could also encourage employees to make tax-deductible contributions for their spouses or other family members who are not in employment. In addition, in order to provide more security for low-income earners, the government could consider partially making contributions for employees who earn less than the minimum threshold.

Retirement-oriented financial planning and education
When it comes to funding retirement, many people fail to start early enough with their financial planning. Retirement may still seem far off, or money may be tight, causing plans to be postponed indefinitely. In addition, due to insufficient knowledge of retirement planning and asset allocation, many people do not know where to start.

Previous research in Hong Kong has shown that married individuals are more likely to save for retirement (Chou, Yu, Chan, Chan, Lum & Zhu, 2014; Chou, Yu, Chan, Wu, Zhu & Lou, 2015). In light of these circumstances, the research team recommends the government to increase the incentives of retirement planning, as well work with non-governmental organizations to improve community education aimed at boosting awareness, knowledge and skills of retirement readiness among married and cohabiting couples and encouraging the younger generation and single individuals to assess their financial situation as early as possible and make a blueprint for their future retirement.

Employment opportunities for the elderly
The study found that many upper-middle income individuals hope to continue working after reaching retirement age. As most companies take their lead from the government, the research team suggests the government to set an example by raising the retirement age for civil servants. In addition, employers are currently not required to make MPF contributions for employees aged 65 and over. The research team also recommends employers to continue to make contributions for these employees. These measures should be complemented by policies which facilitate the employment of the elderly, allowing them to continue to make a contribution to society and maintain part of their income in an appropriate working environment.

Health care, property maintenance and well-being
Finally, the research team found that pillar 4 subsidies (including health care vouchers and the HK$2 concessionary transport fare) are very popular with elderly residents. Although these subsidies may not seem like much, they provide a sense of security and mean that recipients don't have to worry about health care or public transport. However, health care vouchers can only be used for preventive care or out-patient services, and most elderly residents have to rely on public health care services in the event of a serious illness or chronic condition. Longer waiting times caused by Hong Kong's rapidly aging population mean that some people are not able to receive treatment until their condition reaches a critical stage. The study found that people in the 3rd income quartile were concerned about their state of health after retirement, in particular that their quality of life would be affected by a lack of public health care resources, long waiting times for specialist care, and the cost of self-financed medicine.

The research team recommends the government to educate people on how to stay healthy, as well as provide low-cost gym facilities, health seminars and free vaccinations. In order to allay health-related concerns, the research team suggests the government to advise people on how they plan future medical resources and services, including long-term care services. The government could also consider working with the private health care sector to reduce waiting times for specialist clinics and ensure that the elderly receive the treatment they need.

In recent years, local private health care providers have teamed up with insurance companies and network providers to launch video consultation services for Hong Kong people with common conditions. If the patient requires a prescription following the consultation, the medicine is delivered directly to the patient's home. These remote services reduce travel and waiting times and ensure that mobility-impaired patients receive appropriate treatment. The government should therefore consider introducing video consultations and medication management services in order to enable more people to benefit from this technology and access more convenient health care services (subject to strict regulations on medical qualifications, patient privacy and scope/location of services).

The study also found that some property-owning individuals in the upper-middle income group expected their property maintenance costs to increase after retirement. Many were worried about their building falling into a state of disrepair and being unable to afford the necessary maintenance costs. Government support with property maintenance costs mainly consists of loans and subsidies provided by the Buildings Department, Hong Kong Housing Society (HKHS) and the Urban Renewal Authority (URA).
Two of these subsidies are means-tested – the HKHS "Building Maintenance Grant Scheme for Elderly Owners", and the URA "Building Maintenance Grant Scheme for Needy Owners". The subjects of this survey (individuals in the 3rd income quartile) would not necessarily be eligible for these subsidies, although they could apply for a loan from the Buildings Department. The team therefore suggests simplifying loan application procedures and providing more support with housing maintenance costs, such as offering loans with a longer interest-free period for the elderly with financial emergencies. These measures would prevent elderly residents from experiencing financial difficulties.

Finally, the government and other sectors of society could also provide more comprehensive support for retiree and build a stronger social support network that encourages the elderly to protect their physical and mental health and well-being and maintain a sense of self-worth.

6

RESEARCH TEAM

Guangdong-Hong Kong-Macao Greater Bay Area
The 2014/15 Household Expenditure Survey does not include overseas spending. Nevertheless, based on the data obtained from the questionnaire, with the exception of travel (15%), over 80% of respondents planned to do most of their shopping, health check-ups, medical care and dental treatment in Hong Kong. However, as travel within the Greater Bay Area becomes more convenient, Hong Kongers are likely to travel to Mainland China more often, while Hong Kong is likely to see an increase in the number of people from other areas in the region purchasing retirement products and services. The research team believes that the government should take steps to protect the consumer rights of Hong Kong's elderly, both in Hong Kong and overseas. In addition, the government should consider how to position and regulate retirement products and services across the Greater Bay Area such that it can create a win-win situation and virtuous circle.

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