

The Greater Bay Area

A destination for Hong Kong Retirees?

23 Feb 2023

HKRSA

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The Hong Kong Retirement Schemes Association

About HKRSA

The Hong Kong Retirement Schemes Association (HKRSA) was established in 1996 to lead and promote sustainable and better retirement outcomes through the following via the HKRSA and RetireHK.com platforms:

Empower – We empower employers, individuals preparing to retire and retirees with retirement planning and tools.

Advocate – We advocate key retirement issues, retirement income and look for value creation.

Share - We share and facilitate retirement information and knowledge.

Acknowledgements

**HKRSA
GBA Research
Taskforce**

Mr Bob Lee, Ms Catherine Tsoi, Ms Helen Li, Ms Janet Li and Mr Raymond Sze

**Supporting
Organization**

Financial Services Development Council, Mandatory Provident Fund Authority, Insurance Authority

**Participated in the
quotes and comments**

**Mr Calvin Chiu – Chairman of Executive Committee, HKRSA
Dr King Au – Executive Director, Insurance Authority
Ms Janet Li – Vice Chairman of Executive Committee, Co-lead of the HKRSA GBA Research Taskforce
Mr Johnny Yip – Representative of Mr Bob Lee, Member of HKRSA GBA Research Taskforce
Mr Cheng Yan Chee – Managing Director, MPFA
Ms Catherine Tsoi - Member of HKRSA GBA Research Taskforce
Mr Clement Cheung – Chief Executive Officer, Insurance Authority
Mr Raymond Sze - Member of HKRSA GBA Research Taskforce
Mr John Chan – Consultant of HKRSA GBA Research Taskforce
Ms Helen Li - Co-lead of the HKRSA GBA Research Taskforce**

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Agenda

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- ❖ GBA at a Glance
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Background and Objectives

Background and Objectives

The Greater Bay Area (“GBA”) Research Taskforce of the Hong Kong Retirement Schemes Association (“HKRSA”) has prepared this research paper to:

- Outline the role that the Greater Bay Area can play in the retirement plans of Hong Kong citizens.
- Explore how the GBA can grow in importance as an ideal retirement destination.
- Identify the challenges that need to be addressed (e.g., greater regulatory equivalence, medical services, liberalization of capital flows for qualified residents in the GBA, etc.) to accelerate the transformation of GBA towards an increasingly attractive option for enormous Hong Kong retirees.

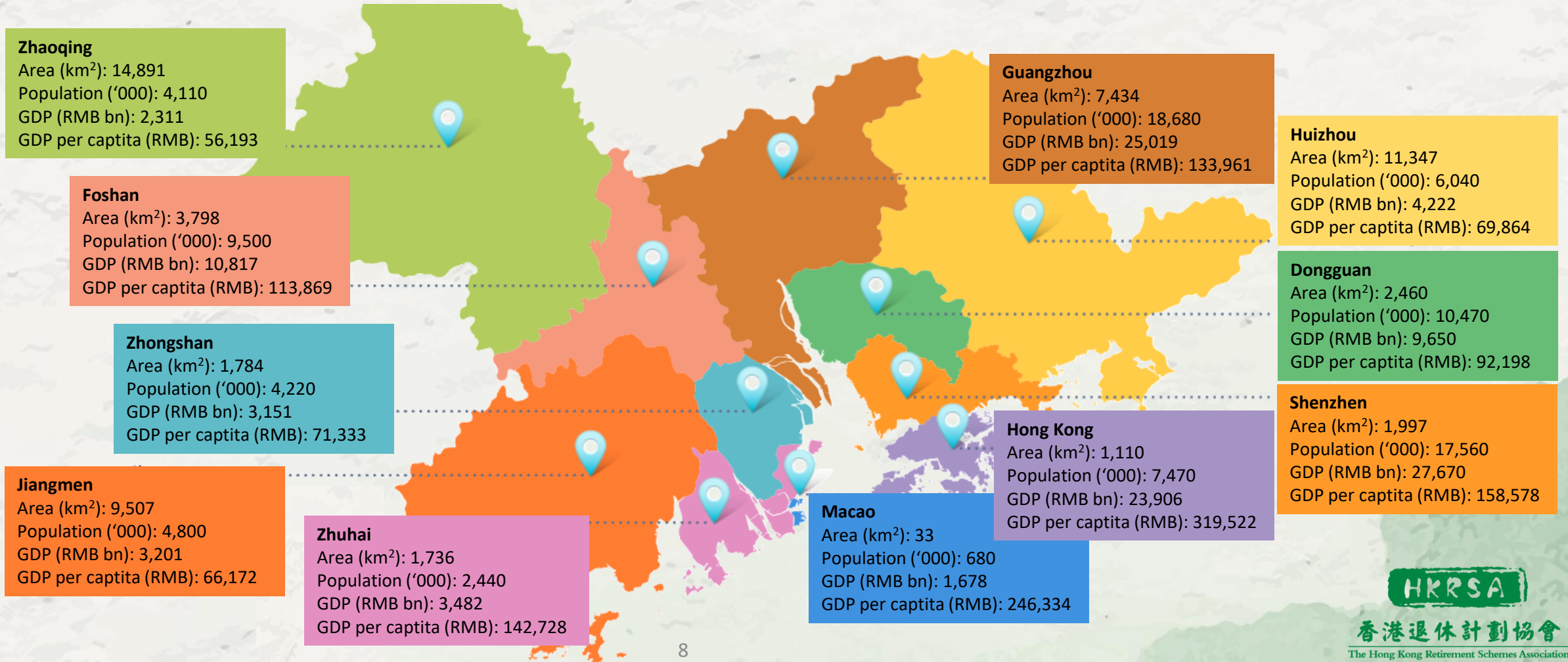


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GBA at a Glance

GBA at a Glance

Key Economic and Demographic Data



GBA at a Glance (cont.)

Persons aged 15+ who are very/quite interested in living, retiring, working, studying or operating a business in the GBA

Economic status	No. of persons ('000)	% of total	% interested
Economically active	180.1	67.7	36.9
Economically inactive	86.1	32.3	40.9
Students	14.2	5.3	21.2
Home-makers	34.3	12.9	44.0
Retired	35.4	13.3	57.9
Total	266.2	100.0	38.1

57.9% of retirees are interested in moving to the Mainland cities of the GBA

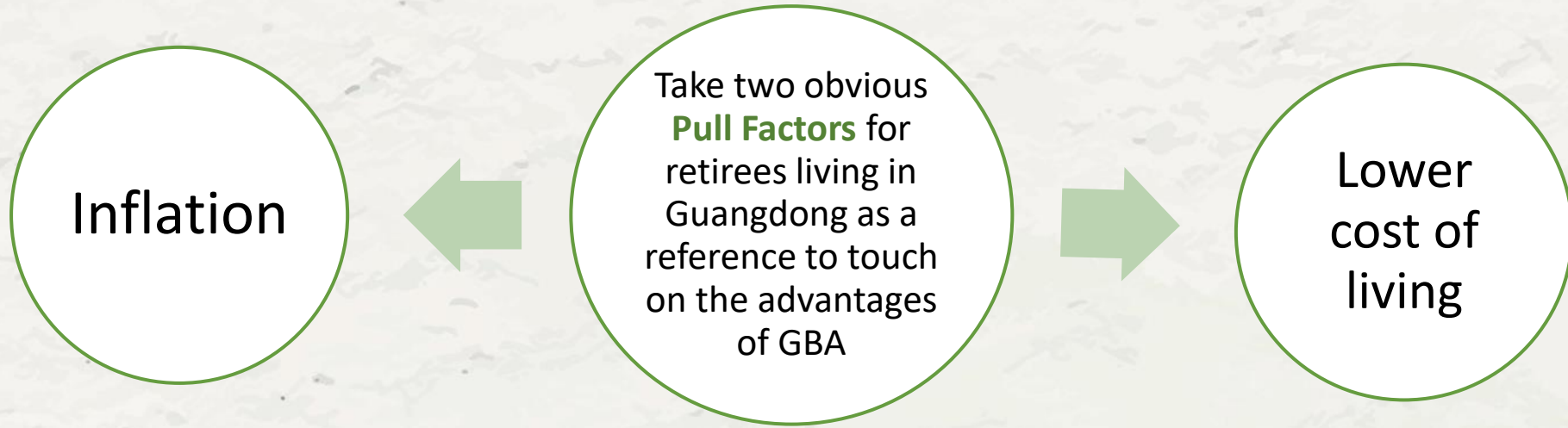
Source: Census and Statistics Department, HKSAR Government

GBA at a Glance (cont.)

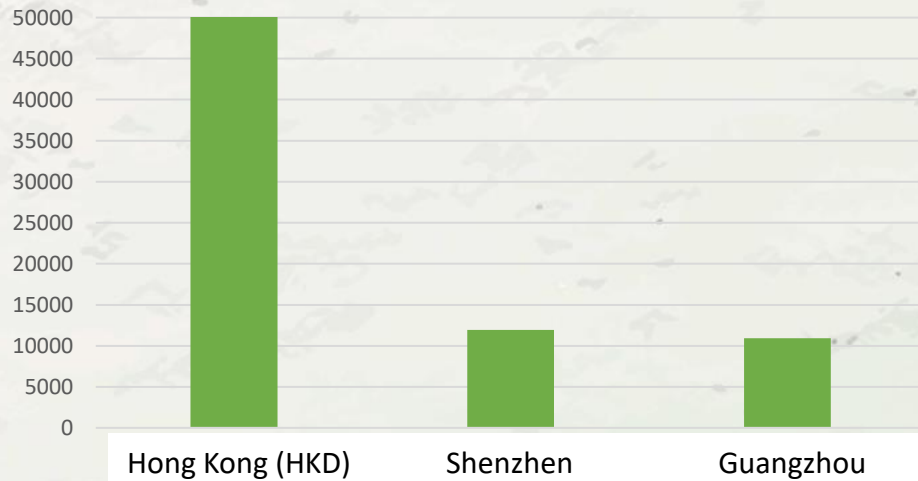
Intended GBA city	No. of persons ('000)	%
Shenzhen	49.7	22.6
Guangzhou	40.2	18.2
Zhongshan	30.7	13.9
Zhuhai	28.2	12.8
Dongguan	20.0	9.1
Huizhou	14.6	6.6
Foshan	14.1	6.4
Jiangmen	12.0	5.5
Zhaoqing	2.8	1.3
Undecided / no answer	42.3	19.2
Total	220.3	

22.6% respondents intended to move to Shenzhen

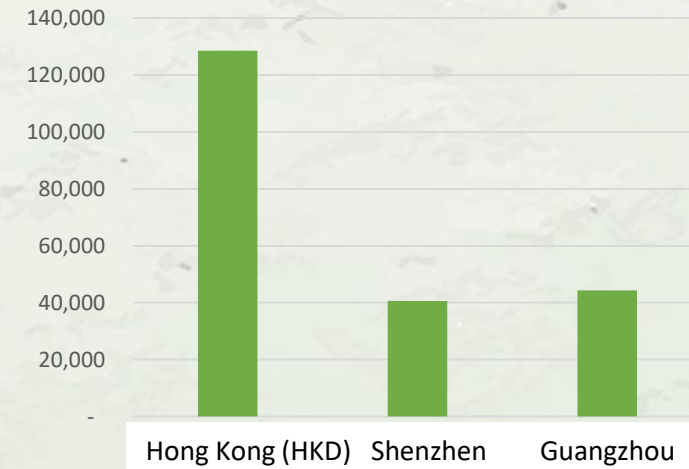
GBA at a Glance (cont.)



Average per capita housing expenditure (2020)



Average per capita expenditure (2020)



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Key Factor I: Social Security

Social Security

The Hong Kong Comprehensive Social Security Assistance (CSSA) Scheme is designed for those who cannot support themselves financially to bring their income up to a prescribed level to meet basic needs. An eligible applicant must:

- I. Have held Hong Kong resident status for not less than one year; and
- II. Their one-year residence need not be continuous or immediately before the date of application. Absence(s) from Hong Kong up to a maximum of 56 days. (whether continuous or intermittent) before the date of application is/are treated as residence in Hong Kong.

Social Security

Elderly CSSA recipients who choose to retire permanently in the Guangdong or Fujian provinces can apply for the Portable CSSA (PCSSA) to continue to receive their monthly payment and annual long-term supplement. The eligibility for HK PCSSA includes the following:

- I. be a Hong Kong permanent resident and have lived in Hong Kong for at least seven years;
- II. be aged 65 or above; and
- III. have received CSSA continuously for at least one year immediately before the date of application for PCSSA. Breaks in payment totaling not more than 10 days during the one-year period are allowed.

Social Security

Social Security Insurance (SSI) in Mainland China

- I. SSI mainly consists of **pension, medical, work-related injury, unemployment, and maternity insurances**. Some supplemental medical insurance may be levied by some local governments. Local employers withhold the employees' SSI contributions and send them to the authorities on a monthly basis.
- II. Residents from Hong Kong legally employed by Chinese entities should participate in the above schemes, with **payments made by both employee and employer**. Hong Kong residents who obtain Mainland China Residence Permits can participate in **basic mandatory insurance** and **basic medical insurance schemes**. Those who already participate in compulsory social insurance in their home cities can apply for **exemption** from the Chinese basic pension scheme and unemployment insurance in Mainland China.
- III. If Hong Kong residents working in Mainland China would **leave Mainland China before retirement**, their individual social insurance accounts shall be **retained and can be re-activated** when they return. Alternatively, they can apply in writing to terminate the social insurance and receive the amount being kept in their account.

Social Security

The Macao Social Security System

- I. Consists of mandatory and voluntary schemes
- II. Local employees and employers are required to make mandatory contributions to the Social Security Fund, while Macao residents who meet legal requirements can also make voluntary contributions
- III. Residents who fulfil their contribution obligations can enjoy old-age and disability pensions, and unemployment, sickness, birth, marriage and funeral allowances

Social Security

HKRSA suggests:

Greater portability of social security benefits (participation, contribution, and withdrawal) across the GBA will be needed as workers become more mobile across the region. This is expected as the GBA initiative grows in importance.



Key Factor II: MPF and Pension Arrangements

MPF and Pension Arrangements

Upon reaching retirement age, employees can withdraw their MPF benefits in a lump sum or in instalments. They may also keep a sum in their account for ongoing investment.

	Hong Kong	Mainland China	Macao
The Second Pillar in Retirement Scheme	Mandatory Provident Fund (MPF)	Enterprise Annuity/ Occupational Annuity	Non-Mandatory Central Provident Fund (CPF)
Purpose	Mandatory retirement saving plan to ensure the welfare after retiring	Supplementary pension scheme	Strengthen social security for retirement

BCT Group conducted an informal survey of Hong Kong-based employers and employees in February 2022. Roughly half of the interviewees were open to the idea of retiring in the GBA. **Medical support** in the GBA is ranked as their number one concern. Other financial issues that were raised include: whether **existing insurance coverage** could be extended to the rest of the GBA; and **flexibility of investment** in terms of scope and vehicles.

MPF and Pension Arrangements

HKRSA suggests :

- I. The network of MPF providers should be encouraged to provide comprehensive first-hand information on GBA retirement options for both employers and employees.
- II. Government incentives to help MPF providers develop more seamless cross-border MPF contribution/withdrawal arrangements.
- III. Innovative new MPF products should be developed to tackle GBA-specific concerns.
- IV. Extend the MPF system to build better investment efficiency, such as enterprise annuity, occupational annuity and the third pillar voluntary contributions etc
- V. Special Voluntary Contributions (SVC) for all GBA residents should be allowed as an extra layer of retirement savings.

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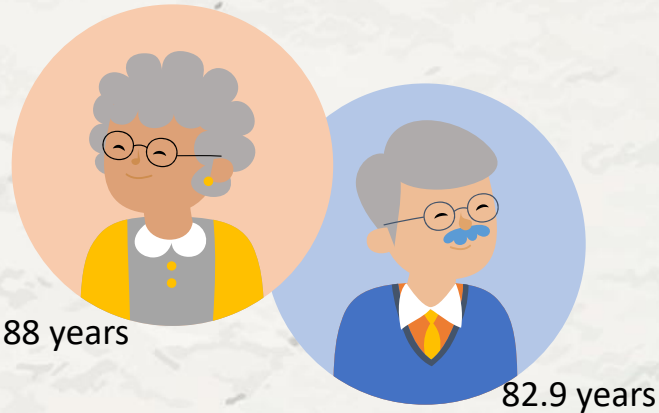
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Key Factor III: Medical and Health

Medical and Health

Life expectancy of HK people



Hong Kong provides a wide spectrum of long-term care services to the elderly, including **Community Care and Support Services**, and **Residential Care Homes**.

Homes for the Aged	Care and Attention Homes	Nursing Homes
For the elderly who live independently in the community, but not need personal or nursing care	For the elderly who suffer from poor health or physical/ mild mental disabilities	For the elderly who cannot be adequately taken care of at the Care and Attention Homes

Medical and Health

Challenges facing Hong Kong's healthcare system

- I. In 2021, Hong Kong had more than 1.4 million people aged 65+, representing 20% of the total population. This figure is forecast to reach 2.5 million by 2039.
- II. While Hong Kong's public hospital system is world-renowned for its high quality and efficiency, it is increasingly overburdened, resulting in long waiting times for the majority of medical treatments and services.
- III. This situation is aggravated by a chronic shortage of the right healthcare facilities, doctors, and medical professionals, which was further laid bare by the Covid pandemic and demonstrates the need to strengthen and improve.

Medical and Health

Residential Care Services Scheme in Guangdong

Since 2014, the Residential Care Services Scheme in Guangdong has also provided an option for elderly people who are on the waiting list for subsidised care and attention places to consider moving to care homes across the border. They can choose residential care homes for the elderly operated by two Hong Kong non-governmental organisations: The Hong Kong Jockey Club Shenzhen Society for Rehabilitation Yee Hong Heights; and The Hong Kong Jockey Club Helping Hand Zhaoqing Home for the Elderly.

**Note: The take-up rate for the Guangdong scheme has not been great. So far, only 282 elderly people have opted for this scheme.*

Medical and Health

What Hong Kong people are looking for:

I. High-quality and safe medical treatment



II. Easy access to proper hospital and medical services



III. Affordability of medical services



IV. Availability of careers



Medical and Health

HKRSA suggests:

- I. To incorporate **improved safety and hygiene standards** to help prevent the spread of infectious diseases and **allow ease of mobility for the elderly**.
- II. To **build an ecosystem** to address retirement and elderly needs and provide **sustainable solutions** where social and healthcare/medical needs can be supported financially.
- III. The Government should **encourage more incentives to facilitate** the development of elderly-friendly accommodation both in Hong Kong and the GBA.
- IV. To allow designated Hong Kong-owned healthcare institutions in the GBA to use **Hong Kong-registered drugs and medical devices**.
- V. **Tech innovations** for elderly care should be encouraged to **enrich retirement living**.
- VI. With the patient's consent, providing **access to Hong Kong medical records** can ensure that Hong Kong people receive the most suitable treatment across the border.

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Key Factor IV: Financial Planning

Financial Planning

Earlier financial planning is of the utmost importance to prepare for retirement. The government should implement more measures to encourage Hong Kong people to save earlier.

Monthly Expenses



≥HK\$13,000



Major Sources of Income



Personal Savings



Financial Support from family members



Passive income

**Source: The Institute of Financial Planners of Hong Kong (IFPHK)11*

Financial Planning

The social security system in Mainland China is more comprehensive than that of Hong Kong.

The Mainland China Banking and Insurance Regulatory Commission has approved the establishment of the new National Pension Insurance Company. This institution will participate in the development of the third-pillar private pension system. It will focus on innovative products, such as pension annuity insurance, exclusive commercial pension insurance, and commercial pension plans. In addition, the State Council introduced a new private pension scheme in April 2022, enabling pre-retirees to make voluntary deposits into a pension account and invest their pensions in stable investment vehicles. This aims to address shortcomings in the current pension system caused by the ageing population.

With the new private pension scheme, pre-retirees will have more options. This will create a lucrative new market for fund houses, banks, wealth management companies and insurers. It will create more connectivity should Hong Kong citizens living or working in the GBA choose to participate.

Financial Planning

HKRSA suggests:

- I. Increasing the tax incentives for TVC to provide financial incentives to pre-retirees to make a voluntary contribution to their MPF schemes. Let TVC account holders enjoy tax deductions under salaries tax or tax under personal assessment.
- II. The government could develop innovative pension products and services in the GBA and enhance the recently-launched Wealth Management Connect scheme.
- III. Given the financial profile of GBA residents, wealthy pre- and post-retirees may demand more innovative and high-quality insurance products. In Mainland China, many local insurers provide retirement community insurance products. A wider range of high-quality insurance products will encourage pre-retirees in the GBA to prepare for retirement earlier.

Key Factor V: Tax Considerations



Tax Considerations

Hong Kong retirees' typical/main sources of funds will be MPF, investments (e.g., gain or dividend income from equities), property rental, and payments from insurance policies.

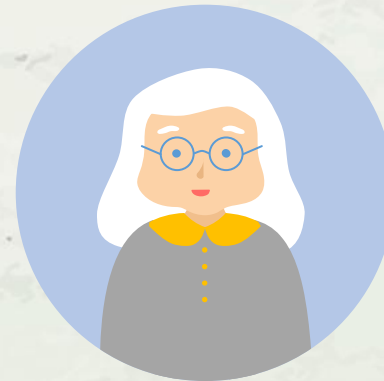
Most Hong Kong retirees don't have a domicile under PRC tax law when they first move to the GBA. Then they may be regarded as Chinese non-resident taxpayers (NRT) or resident taxpayers (RT) depending on the number of days they were physically present in Mainland China in a given tax year:

No PRC domicile
and physically
present in Mainland
China for less than
183 days.



NRT

32



RT

Spending 183 days
or more during a
year.

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Tax Considerations

Tax Consequences

MPF distributions for Hong Kong retirees while they reside in the GBA, whether they are NRT or RT, is not subject to Mainland China Individual Income Tax (IIT).

If Hong Kong retirees are NRT in a relevant tax year, they only need to pay IIT on investment income and property rental income **sourced from Mainland China**, excluded from Hong Kong.

But if Hong Kong retirees are RT in a relevant tax year, there are two potential outcomes:

- I. If Hong Kong retirees reside in Mainland China for 183 days in a relevant tax year but not for six consecutive years (including the relevant tax year), they need to pay IIT on investment income/profit and property rental income sourced from Mainland China in that year. Investment income/profit and property rental income sourced from Hong Kong are generally not subject to IIT.
- II. If Hong Kong retirees reside in Mainland China for 183 days in a relevant tax year, have been residing in Mainland China for six consecutive years (including that relevant tax year), and have spent 183 days or more in Mainland China each year, they are required to pay IIT regardless of whether the investment income/profit and property rental income is sourced from Mainland China or Hong Kong.

**Payment from insurance policies is generally tax-exempt. However, the IIT law is not clear as to whether insurance policies with investment elements should be taxable or tax-exempt. This is a grey area that Hong Kong retirees need to bear in mind.*

Tax Considerations

HKRSA suggests:

- I. The tax authorities should consider providing **targeted tax concessions**. The priority entry point is to treat Hong Kong retirees as non-resident taxpayers **regardless of the number of days** they spend in Mainland China.
- II. Otherwise, under the current arrangements, Hong Kong retirees may only consider staying in Mainland China for less than 183 days each year. If they stay for 183 days or more in a relevant tax year, they may need to make sure this is not done for six consecutive years.



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Conclusion



Conclusion: six recommendations

As the GBA initiative grows in importance, greater portability of social security benefits will be needed

Technical, safety and hygiene standards for elderly care and accommodation in the GBA should be prescribed and united

MPF providers should ensure employers and employees are informed about GBA retirement options formulated

Tax incentives to encourage pre-retirees to make voluntary contributions to their MPF schemes should be increased

More seamless cross-border MPF contribution / withdrawal arrangements should be put in place

Concessions should be granted so that Hong Kong retirees in the GBA can keep their non-resident taxpayer status beyond 183 days per year

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