

# NEWS BULLETIN

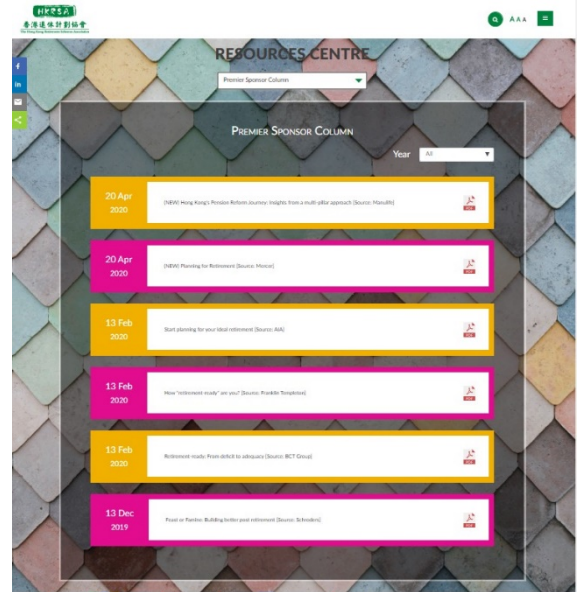
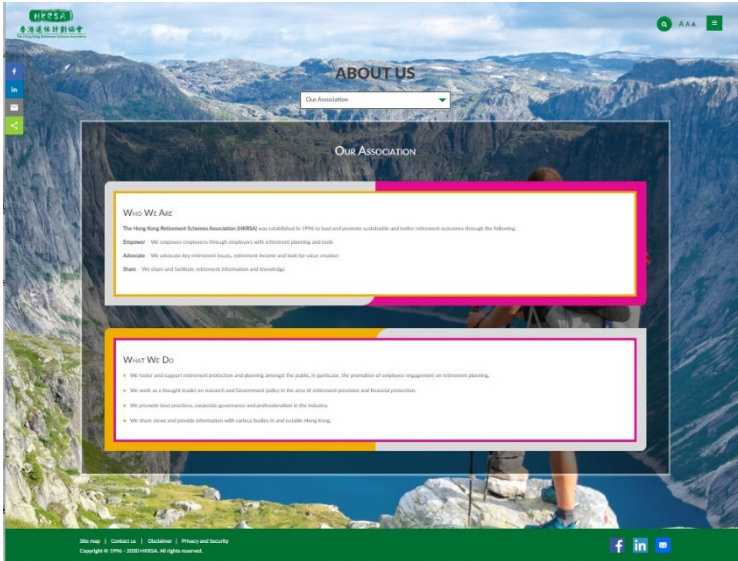
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## Our new website will be launched soon, stay tuned!



With longevity, ageing and the build-up of potentially massive retirement gap, we believe providing objective and one-stop-shop retirement related resources shall be valuable to individual's retirement planning and thus leading to the retirement system success - which is the mission of the HKRSA in leading and promoting sustainable and better retirement outcomes.

This newly launch website will bring you a newer and smoother experience via different devices to cope with the century pace. Stay tuned!

### 2020 Premier Sponsors



## Exploring More about Post Retirement Solutions



Increased life expectancy has become a challenge for the public retirement system in Hong Kong with people worrying whether their savings are sufficient for a longer post-work life.

A seminar by the Hong Kong Retirement Schemes Association (HKRSA) on January 16 brought together stakeholders to share their views on the development of third pillar pension products, and how individuals should select financial solutions to address retirement needs.

Mr. Raymond Li, Executive Director and Chief Executive Officer of Hong Kong Mortgage Corporation (HKMC), provided an overview of the retirement products launched by the government mortgage company. He said the reverse mortgage programme introduced in 2012 allows property owners to use their flats as collateral for monthly retirement payouts. According to Mr. Li, it was the first retirement product to address longevity risks in Hong Kong, a city with the highest life expectancy in the world. “Over the past six months, we’ve seen the volume of our reverse mortgage grow as people wanted to lock in the high property value,” Mr. Li said.

The second speaker was Mr. Joseph Lee, Director of Product Regulation Division at Mandatory Provident Fund Schemes Authority (MPFA), which supervises the city’s largest public retirement plan.

According to Mr. Lee, the majority of the existing 400plus MPF funds have high exposure to market volatility. He said the MPFA was working with the industry to develop principles for designing retirement solutions, which should be “outcome oriented”, and the two major goals should be to beat Hong Kong inflation, and provide long-term income payout.

“The retirement solutions also need to be transparent and easy to understand with an appropriate fee level. [The] performance should be reviewed on a regular basis,” he added. Mr. Lee said the MPFA has launched the Investment Solution Lab to encourage MPF providers to design retirement solutions using these principles.

After his speech, he joined Mr. Li, Ms. Ka Shi Lau, Executive Committee member of HKRSA, Managing Director & Chief Executive Officer of BCT Group, and Mr. Raymond Ng, Vice President and Head of Employee Benefits at Manulife (International) Limited, in a panel session moderated by Mr. Alan Taylor, Profile & Event Subcommittee member of HKRSA and Chairman of investment consultancy AT Associated Hong Kong.

According to Ms. Lau, a majority of MPF members have “extreme” investment behavior. She said some members are “disengaged” from portfolio rebalancing and put all their money into conservative funds, while others are overly active in portfolio reallocation. She said they should consider whether their savings are “sufficient” for retirement, and whether their behavior is “healthy” for portfolio reallocation.

Ms. Lau said MPF providers also need to provide a more comprehensive platform, including risk assessment and asset allocation advisory services, and a balanced mix of funds for their clients.

Meanwhile, Mr. Ng said a recent survey by Manulife found that most MPF members preferred to withdraw their MPF savings in a lump sum once they reach 65 years of age. Many respondents said they are considering reinvesting the capital in risky assets such as stocks and property, a risk-taking mindset that Mr. Ng described as very “worrying”.

But the survey also found strong demand for income distribution products. Mr. Ng suggested that MPF providers should put more effort into developing these inflation-linked income products to meet the demand. He also said MPF providers should use plain language to explain their funds to plan members and improve transparency so that they can understand the fee structure.

Mr. Taylor concluded the panel session by highlighting annuity products as a “partial solution” to address longevity risk. He said regulators and MPF providers should work together to facilitate the development of these products.



We are delighted to have articles contributed by Schroders, AIA, BCT, Franklin Templeton, Manulife and Mercer to provide us insights on how can we better plan for our retirement. Stay tuned for more articles in June 2020!



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**DEC 2019**

**Feast or Famine: Building better post-retirement solutions**

**Schroders**  
施羅德投資

Why is post-retirement investing so difficult? What do people actually need in retirement? Is there one 'right answer'?

In short, no. There are many complex issues involved in post-retirement solutions: insufficient savings, low bond rates, lack of financial knowledge, opaque products, regulations, operational constraints, political pressures, and the role of the state as a safety net, to highlight a few. These challenges are well known.

**Retirement is full of uncertainty**

Added to these challenges is an array of uncertainties that people need to consider when planning for their retirement.

- Improving longevity is a risk as people are living longer than expected and not having enough savings to last. This is in fact a significant risk as the percentage of the Hong Kong population aged 60 and above is expected to rise from 20% in 2019 to 42% in 2050.<sup>1</sup> These figures are higher than the whole of East Asia and Pacific, where the comparator figures are 14% in 2019 rising to 32% in 2050.<sup>1</sup>
- Similarly, **consumption** is a risk as people may underestimate their expenditure in retirement due to underestimating the amount of goods and services they need during the period. What is most difficult to estimate are potential 'shocks' in consumption needs, which may come from unexpected medical expenses, family emergencies, major home repairs and investment losses. Another risk is which consumption can change unexpectedly is due to changes in government policy, for example the application or removal of subsidies for retirees.
- Inflation** risk comes in as inflation will increase the price of goods and services people consume over time, and inflation can go up at a greater rate than expected.
- Investment** can be a risk when people earn less than expected on savings accumulated to date. This includes both insufficient growth rate of fees as well as the risk of experiencing large losses near the start of retirement.

**Figure 1: There are six key areas of uncertainty that individuals face when financially planning for retirement**

Source: Schroders

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**FEB 2020**

**Start planning for your ideal retirement**

**AIA**

While there is no way to control where life will take us, when it comes to our quality of life after retirement, we cannot depend on luck alone. We need a sound retirement plan.

**Hong Kongers are unprepared for retirement**

Our latest AIA Desired Retirement Tracker (the "Survey") reveals that when planning for retirement, Hong Kongers are "saving too little and starting too late," with survey respondents allocating just HK\$289 (median) monthly to their retirement savings or investments. Worryingly, nearly half (46%) of the respondents do not have a clear savings or investment plan for retirement and do not expect to start doing so until the age of 64.

**Individual actuarial calculations** for each respondent further revealed that 60% of respondents will have insufficient retirement resources with an individual shortfall of HK\$2.26 million, a record high among all previous surveys. These "undersavers" will either have to postpone their retirement by 10 years or reduce their monthly living expenses by HK\$486 (median). It is therefore crucial that people start planning for retirement as early as possible.

**Three keys for successful retirement planning**

So how should we start planning for retirement? Here are three key things to remember:

- Set clear goals by thinking about your ideal quality of life after retirement. This will help you budget the retirement resources you need.
- Stick to your plan and be persistent with your contributions. The earlier you start saving, the more you will benefit from compound growth and optimize your returns.
- Grow your financial management knowledge and learn about different financial management tools.

Start by being more active in managing your MPF, i.e. regularly reviewing your investment portfolio, consolidating your MPF accounts, and adjusting your fund choices as market conditions change.

**Take advantage of TVG and QDAP tax deductible products**

There are ready-made, easy-to-understand financial solutions on the market that can help people enhance their retirement provision. Some even offer tax benefits, such as MPF Tax Deductible Voluntary Contributions (TVG) and Qualifying Deferred Annuity Policy (QDAP) introduced last year, with a combined tax deduction limit of up to HK\$600 per taxpayer per year.

The TVG, for example, allows employees to adjust their contribution modes and amounts according to their own preferences and needs. With a variety of fund choices and a contribution amount as low as HK\$300 per month, the TVG provides a flexible and convenient way to save for retirement.

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**FEB 2020**

**Retirement-ready: From deficit to adequacy**

**BCT**  
BCT 宏利集團

How do you want your life to be when you retire? Your retirement depends on how you plan and act on it regularly. The earlier you start planning, the more abundant and comfortable your retirement will be.

**Hong Kong people are not retirement-ready**

In Hong Kong, an alarmingly high number of people are not retirement-ready. According to Franklin Templeton 2019 RRS Survey, more than half of the survey respondents of pre-retirement age in Hong Kong hadn't started saving for retirement, and over half were worried about running out of money in retirement. As you know, Hong Kong has a rapidly ageing population, as people have longer life expectancies, the need to save, invest and grow their savings effectively becomes more pressing.

Unfortunately, most people don't know how to plan, plan poorly or don't bother to plan at all, which leaves them with a big retirement savings gap that outlives their assets. Whilst some people rely on personal savings and some on social security, one of the mistakes that a lot of Hong Kong people actually make is overlooking the power of various retirement savings vehicles such as MPF and missing out on opportunities to maximize their retirement savings.

**MPF makes a difference in your retirement**

MPF matters when it comes to retirement success, given that most working people in Hong Kong have at least one MPF pension account. Although the 10% mandatory contributions (MC) from employers and employees seem insignificant and are said to be insufficient for retirement, MPF is, in fact, a crucial part of your retirement savings which is easy to implement to improve savings rate. According to the ASPA Journal's article titled "Retirement Success: A Surprising Look into the Factors that Drive Positive Outcomes", savings rate (SR) is the primary driver of retirement success, which is far more important than asset allocation (AA), actuarial assessment and intervention (AI), and asset quality (AQ). Therefore, with a higher savings rate in MPF, it is more likely for people to retire with adequate savings without deteriorating living standard or buying power.

**The Relative Importance of the Drivers of Retirement Success**

Source: "Retirement Success: A Surprising Look into the Factors that Drive Positive Outcomes", The ASPA Journal, Vol. 41, No. 3 (Summer 2017)

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**FEB 2020**

**How "retirement-ready" are you?**

The survey reveals that 37% of respondents living in Hong Kong have not started planning or saving for retirement. While numbers of non-savers are highest among younger people, the survey shows significant numbers of people over 50—those closest to retirement—haven't started saving. In Hong Kong, 40% of respondents aged 50 and above haven't begun retirement preparations, while for those in mainland China the number is even higher at 54%.

**Rising Savings Gap Awareness**

In many parts of the world, a comfortable retirement requires a sufficient level of retirement savings and investments.

Residents in Hong Kong (77%) and mainland China (68%) are stressed when they think about saving for the golden years.

There are mixed signals about the extent to which respondents appreciate the implications of the retirement savings gap. This misleads to problems among the youngest respondents in Hong Kong, who said they'd save the same amount for retirement as other age groups are now, despite acknowledging that in around 30 years' time, inflation could increase living costs.

The survey suggests many people are aware of their unrealistic expectations both in understanding the size of their post-retirement needs and in underestimating the amount of money they might require to save pre-retirement to service those needs. Potential health issues and related pharmaceutical expenses top the list of concerns during retirement according to around half the respondents. This is clearly a global issue for pre-retirees—a similar survey we conducted in the US also showed that health expenses in retirement were a top concern.<sup>1</sup>

In case funds saved are not enough for retirement, nearly half of Hong Kong respondents (49%) said they will continue working and postpone retirement. Those in mainland China said they would consider finding a second job to supplement income (40%) or continue working and postpone retirement (33%).

**Hong Kong and Mainland China Are "Retirement-Ready"**

Years of economic growth in Hong Kong and China have brought social, economic and demographic changes, including the challenges an aging population poses. Our latest research suggests that public attitudes towards saving aren't keeping pace with the likely needs of the future.

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**APR 2020**

**Hong Kong's Pension Reform Journey: Insights from a multi-pillar approach**

**Manulife Investment Management**  
安理投資管理

Seismic demographic shifts have strained pension systems worldwide. As one of the most developed pension markets in Asia, Hong Kong is not immune from these global trends. In 2018, the number of people aged 65 or above around the world exceeded those under five years of age for the first time in history.<sup>1</sup> Life expectancy continues to increase, with people born in developed countries since 1970 now having a 50-50 chance of living beyond 100 years.<sup>2</sup> In particular, Hong Kong has the world's most long-lived population, with women expected to live past 85 years and men over 81.

**What might work in Hong Kong?**

We understand from our past experience that there is no one-size-fits-all solution. However, a system that includes a combination of solutions from a multi-pillar framework seems to be a good way to address the need for change. For instance, the World Bank has previously outlined a five-pillar pension framework (Chart 1). It has also proposed useful criteria to evaluate the performance of pension systems on the basis of five key outcomes: efficiency, sustainability, coverage, adequacy and security.

The Mandatory Provident Fund (MPF) serves as one main source of required retirement income for many Hong Kongers. It displays numerous strengths when evaluated by the five World Bank criteria. Coverage is high, with enrollment near-universal among employers and employees, and standing at about 70% of the self-employed.<sup>3</sup> As a mandatory, fully-funded and defined contribution system, the MPF is sustainable by design, and security is assured by the city's sound legal and financial systems as well as the MPF's robust regulatory and supervisory regime.

**Chart 1: The World Bank's five-pillar pension framework**

Source: World Economic Forum, 2018, Manulife Investment Management © 2018

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**APR 2020**

**Planning for Retirement**

**MERCER**

**Introduction**

In this paper, we outline the simple tools for Hong Kong individuals on the investment topics and vehicles available for their retirement planning.

**Living longer**

According to Centre for Health Protection, the life expectancy at birth in Hong Kong has steadily increased in the past few decades, from 71.8 years and 67.7 years in 2018.<sup>1</sup> In simple terms, this means around additional 5,300 and 4,500 days of precious time on the Earth for males and females respectively, and the need to look further when planning for your life in retirement.

Unfortunately, the cost of living may not fall very much when an individual retires. Living expenses and medical fees can still be burdensome. According to a Household Expenditure Survey conducted by Hong Kong Census and Statistics Department, on average, the per capita expenditure on food, consumer goods and services is HK\$253 per month.

With regard to retirement income, the gross replacement rate of Hong Kong was merely at 40% according to a pension survey<sup>2</sup> conducted by The Organization for Economic Co-operation and Development (OECD), which was below the average of OECD countries, i.e. 51%. Combined with the fact that the rate of house costing of around 50% is much lower than comparable OECD countries, may also indicate an even wider gap in retirement wealth and living costs for Hong Kong retirees.

A working individual can build his/her savings gradually via different investment tools to meet the retirement needs, with awareness of how they may adjust their asset allocation based on their situation in various life stages.

The chart below has briefly introduced the 7 steps for retirement planning:

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## Theme of the Year – Retirement beyond Dollars and Cents

To a lot of people, retirement planning is usually about the financial aspects after ending one's career. But in fact, with increasing life expectancies, retirement can last for many more years nowadays and retirement planning should go beyond just finances to make everyday more fulfilling. It can include a wide range of activities – some goal-driven, some purpose-driven and

some enjoyment-driven. Everyone's retirement is unique, so by understanding your own needs and finding out the different options, you can prepare yourself for a seamless transition from your working life to make retirement the next most exciting and fulfilling phase in life.

### Good MPF Employer Award 2019-20 open for applications from 1 April

The 2019-20 Good MPF Employer Award, organized by the Mandatory Provident Fund Schemes Authority (MPFA), will be open for applications and nominations from 1 April to 30 June 2020. The annual Award aims to recognize employers that have been committed to enhancing the retirement benefits of their employees since 2015. The response in the past few years has been encouraging. Now in its sixth year, nearly 1,800 companies and organizations have been honoured as "Good MPF Employers".

To specially commend and give public recognition to employers that have made continuous efforts to further enhance the retirement protection of their employees, employers who fulfil the relevant requirements will be presented with one or both of the following **NEW** awards:

- **Good MPF Employer 6 Years**

Employers receiving the Good MPF Employer Award for six consecutive years

- **Best All-round MPF Employer**

Employers fulfilling ALL five criteria below:

- (1) Received the Good MPF Employer 6 Years;
- (2) Offered more than one MPF scheme;
- (3) Offered MPF voluntary contributions for selected or all of their employees;
- (4) Received the e-Contribution Award; and
- (5) Received the MPF Support Award.

This year, the Award covers the period from 1 April 2019 to 31 March 2020. Employers wishing to apply for the Award can simply submit an [application online](#) on the MPFA's [Good MPF Employer Award website](#). Alternatively, employers can submit their applications by email, fax or post. Employees are also welcome to nominate their employers by submitting a [nomination form](#).

The MPFA will present Award Certificates to the awardees, and their names will be listed on the MPFA website for public access and recognition. They will be invited to MPFA events and will receive the latest MPFA updates. Awardees are also entitled to use the Award Logo on their website and promotional materials until 30 September 2021. They may also be invited to share their experience with the public through various promotional channels!

Don't wait, apply now, and be a Good MPF Employer for 2019-20!

Website: [www.mpfa.org.hk](http://www.mpfa.org.hk)



Upcoming HKRSA event

**HKRSA Webinar**

Fee: Free | Language: English

Date & Time: 15 May 2020 (3.00pm –4:00pm) [Register now](#)

Date & Time: 5 June 2020 (3.00pm –4:00pm) [More details](#)

**AGM & 24<sup>th</sup> Annual Dinner** [Register now](#)

Date & Time: 17 September 2020 (6:30pm onwards)

Venue: Concord Room, Renaissance Harbour View Hotel

**APIC Submit** (co-host by APIC & HKRSA)

Date & Time: 23-24 November 2020



Upcoming external event

**HKIB Annual Banking Conference 2020**

Date & Time: 28 September 2020 (9:00am-5:15pm)

Venue: N101, Hong Kong Convention and Exhibition Centre

Event website: [Bankingconference.hkib.org./hkib2020](http://Bankingconference.hkib.org./hkib2020)

Members who are interested in the external events can register with the respective organisers.  
More details to the above events can be found in HKRSA's website.

Produced by the Member Communication Sub-committee