A GAI-PPI ISSUE BRIEF

Meeting Hong Kong's Retirement Challenge

by Richard Jackson

GAI Global Aging Institute

PPI A POWERFUL PERSPECTIVE

ABOUT THE GAI-PPI ISSUE BRIEF SERIES

Governments and businesses around the world are looking ahead and trying to anticipate the retirement needs of tomorrow's growing elderly populations. Nowhere is this more difficult to do than in Asia, where formal retirement systems are still maturing, rapid development is transforming traditional attitudes and expectations, and populations are about to age dramatically. It is in this context that the Global Aging Institute (GAI) and the Pacific Pension & Investment Institute (PPI) have joined forces to produce a new series of issue briefs that explore key retirement policy challenges in Asia. Some of the issue briefs will focus on the challenges facing particular societies, while others will explore broader demographic, economic, and social developments with important implications for retirement policy throughout the region. GAI and PPI hope that the series will inform the debate over how to improve retirement security in Asia and help to push it in a constructive direction.

The Global Aging Institute and the Pacific Pension & Investment Institute do not take specific policy positions; accordingly, all views expressed herein should be understood to be solely those of the author.

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Meeting Hong Kong's Retirement Challenge

Retirement insecurity is growing throughout East Asia. Over the past few decades, the extraordinarily rapid pace of economic growth has opened up a chasm between the living standard of the young and the old. Informal family support networks, which have been the mainstay of retirement security since time immemorial, are under increasing stress from the forces of modernization, but formal government and market substitutes are not yet fully developed. Meanwhile, massive age waves are about to overtake much of the region, threatening to push up fiscal and family burdens alike. (See Figure 1.)

This issue brief turns the spotlight on Hong Kong's retirement challenge, which in many ways epitomizes the challenge facing the region as a whole. It begins by assessing the state of retirement security for today's retirees, as well as the retirement prospects for today's working generations. It then evaluates the strengths and weaknesses of Hong Kong's retirement system and presents a reform framework for improving its adequacy. Along the way, it draws heavily on the findings of the Global Aging Institute's (GAI) East Asia Retirement Survey, which offers valuable new insights into changing retirement attitudes and expectations in ten East Asian societies, including Hong Kong.[1]

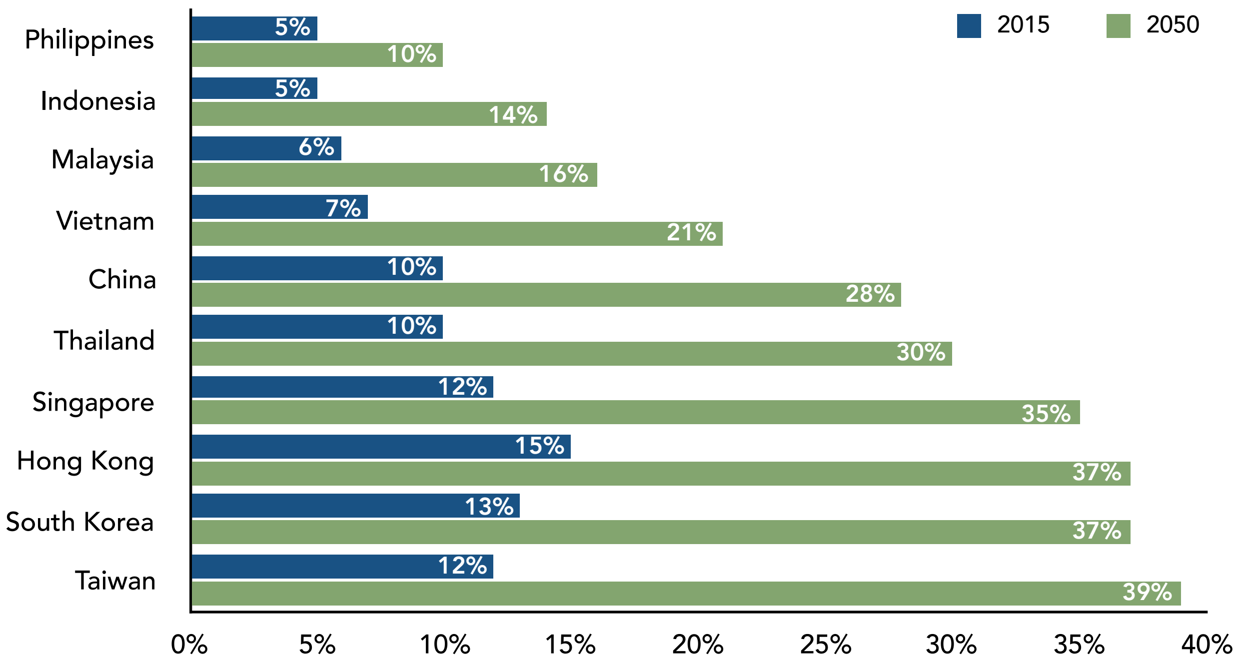
There is no question that the adequacy of Hong Kong's retirement system needs to be improved. The economic circumstances of today's elderly, who have reached old age while the old order is passing away but the new order is still taking shape, can only be described as precarious. Roughly one in three receive no pension benefits of any kind, public or private, which helps to explain why roughly one in three have incomes beneath the poverty line. Although the retirement prospects for today's more affluent working generations are improving, they remain far from secure. Even after the Mandatory Provident Fund (MPF), Hong Kong's savings-based pension system, has matured, a large share of the workforce will remain vulnerable to hardship in old age.

[1] All survey findings cited in this issue brief are from Wave 2 of the East Asia Retirement Survey. For a brief description of the survey, see the Note on the East Asia Retirement Survey at the end of the issue brief. For a more in depth discussion of the findings, see Richard Jackson and Tobias Peter, *From Challenge to Opportunity: Wave 2 of the East Asia Retirement Survey* (Alexandria, VA: GAI, 2015) and Richard Jackson and Tobias Peter, *From Challenge to Opportunity: The Future of Retirement in Hong Kong* (Alexandria, VA: GAI, 2015).

FIGURE 1

MUCH OF EAST ASIA IS BEING OVERTAKEN BY MASSIVE AGE WAVES

Share of the Population Aged 65 & Over in 2015 and 2050



Source: *World Population Prospects: The 2015 Revision* (UN Population Division, 2015)

Concerns about retirement security are now pushing pension reform to the forefront of the policy debate. Although many Hong Kongers would like to see the state assume primary responsibility for financing retirement income, most proposals developed during the government's recent consultation process focused on strengthening the current savings-based retirement system, rather than fundamentally restructuring it.[2] This is good news. Funded pension systems like the MPF, in which workers' contributions are saved and invested and benefits are paid out of the accumulated assets, are better suited to the needs of aging societies than pay-as-you-go systems, in which current workers are taxed to pay for the benefits of current retirees—and make no mistake, with the UN projecting that the elderly share of its population will more than double from 15 percent in 2015 to 37 percent in 2050, Hong Kong is about to age dramatically. At the macro level, funded pension systems can take pressure off government budgets and help to maintain adequate rates of savings and investment. At the micro level, they can offer workers higher replacement rates than pay-as-you-go systems can at the same contribution

[2] See *The Evolving MPF System: An Objective Assessment* (Hong Kong: Ernst & Young, May 2012); *Research Report on Future Direction of Retirement Protection in Hong Kong* (Hong Kong: University of Hong Kong, August 2014); and *Retirement Protection Forging Ahead: Consultation Document (Hong Kong: Commission on Poverty*, December 2015).

rate—or, alternatively, the same replacement rate at a lower contribution rate.

The problem lies elsewhere—not in the basic structure of the MPF, but in its design parameters, which undermine its adequacy and prevent it from realizing its promise. The MPF's contribution rate is too low and will need to be raised. Its administrative fees are too high and will need to be lowered. Its lump-sum payouts leave retirees at risk of outliving their savings and will need to be replaced, at least in part, by some form of annuitization. Any society whose contributory pension system is still maturing also needs a robust, tax-financed, noncontributory "social pension" to ensure a basic level of old-age income support to retirees who did not participate in the contributory pension system or who only participated in it for part of their careers. Hong Kong's Old Age Allowance and Old Age Living Allowance are supposed to serve as a backstop against poverty in old age, but the benefits are too meager and will need to be enhanced.

Hong Kong enjoys some enviable advantages in meeting its retirement challenge, including flexible labor markets, well-developed capital markets, and an entrepreneurial culture. But it also labors under a few notable handicaps that may complicate the task. The East Asia Retirement Survey reveals that attitudes toward retirement security differ dramatically by socio-economic status, with less educated and lower-earning Hong Kongers tending to favor government responsibility for retirement income and more educated and higher-earning ones tending to favor individual, savings-based responsibility. The survey also reveals another attitudinal bias with potentially problematic implications for reform. Although Hong Kongers are a highly market-oriented people, they tend to have highly negative views of the financial services industry.

Yet there is also some good news which emerges from the survey. It reveals that Hong Kongers are ready to support a wide range of constructive reforms, from strengthening the old-age safety net to mandating additional retirement savings. The time for policymakers to act is now, while Hong Kong's population is still relatively young and the public is ready to engage the challenge. If they delay, the task will only become more difficult. GAI and PPI offer this issue brief in the hope that it will inform the debate and help to push it in a constructive direction.

Retirement Security Today and Tomorrow

Hong Kong's current retirement system is a recent creation. Until about 15 years ago, pension coverage was limited to civil servants and the roughly one-third of the private-sector workforce lucky enough to participate in a voluntary employer pension plan. It was only in 2000 that the government launched the Mandatory Provident Fund, Hong Kong's publicly mandated and regulated but privately managed defined contribution system. With some limited exceptions, including domestic employees and short-term foreign residents, the MPF now covers all workers aged 18 to 64 who are not covered by another statutory pension scheme, such as a civil service plan or an Occupational Retirement Schemes Ordinance (ORSO) plan, as Hong Kong's private employer pensions are known. In addition to the MPF and the other contributory pension schemes, Hong Kong has a system of government-financed noncontributory pensions, including the modest Old Age Allowance for residents aged 70 or older and the somewhat more generous, but means-tested, Old Age Living Allowance for qualifying residents aged 65 or older.

Because universal pension coverage is so new, many of today's retirees receive little if anything in the way of benefits and remain vulnerable to hardship in old age. Just 56 percent of retired respondents in the East Asia Retirement Survey report receiving income from the MPF or another contributory pension scheme. Roughly one-third report receiving no pension benefits of any kind, including means-tested old-age support. Although 42 percent of today's retirees report receiving asset income from insurance or annuity products and/or stocks, bonds, or mutual funds, these are mostly the same retirees who have pension benefits. Thirty-seven percent of today's retirees say that they depend financially on their grown children —and 22 percent say that they could not "get by at all" without their financial support. Roughly one-third have incomes beneath 50 percent of the median income for all households, the standard international measure of poverty.

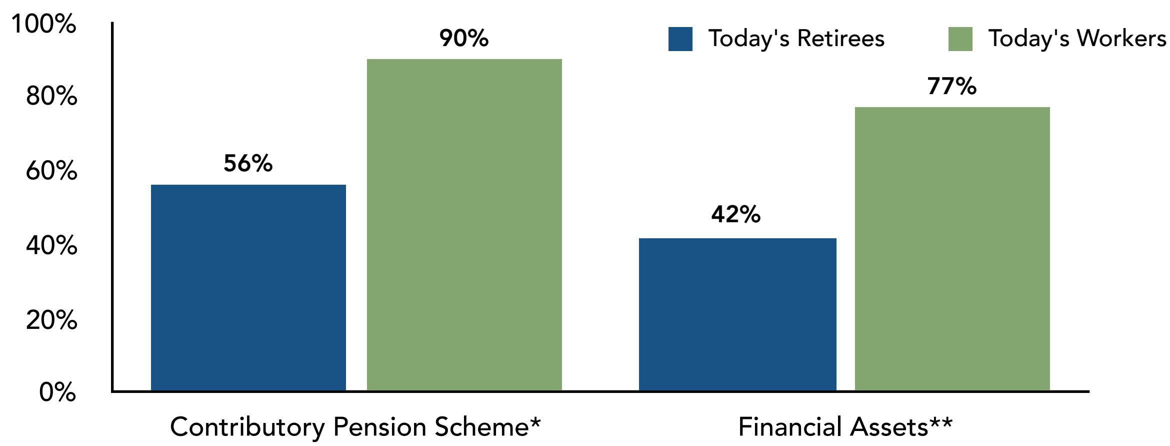
At first glance, today's workers would appear to be much better served by the retirement system. Fully 90 percent expect to receive income from the MPF or another contributory pension scheme when they retire. At 77 percent, a much larger share also expect to receive income from financial assets than is the case for today's retirees. (See Figure 2.) Indeed, the share of Hong Kong workers who expect to receive income from insurance or annuity products and/ or stocks, bonds, or mutual funds is larger than the equivalent share for workers everywhere else surveyed, the only close runners-up being Singapore and Taiwan.

Yet the closer one looks, the less secure the retirement prospects for today's workers seem. Pension receipt rates may be due to rise dramatically as the MPF matures. But as we will see, replacement rates are likely to be low—no more than 30 to 35 percent for full-career workers. The high expectations of asset income receipt may also overstate retirement preparedness, since it turns out that many of the workers who say they expect to receive income from financial products have not yet purchased those products.

FIGURE 2

RATES OF PENSION AND ASSET INCOME RECEIPT ARE DUE TO RISE IN HONG KONG

Shares of Today's Retirees Receiving Income versus Shares of Today's Workers Expecting to Receive Income from a Contributory Pension Scheme and Financial Assets in Hong Kong



* Contributory pension schemes include the MPF, civil service pensions, and ORSO schemes.
** Financial assets include insurance and annuity products and stocks, bonds, and mutual funds, but exclude bank deposits.

Source: East Asia Retirement Survey: Wave 2 (GAI, 2015)

Meanwhile, today's workers expect to receive much less support from the extended family than today's retirees do. Just 16 percent expect to be financially dependent on their grown children when they retire, less than half the level of dependence among today's retirees.

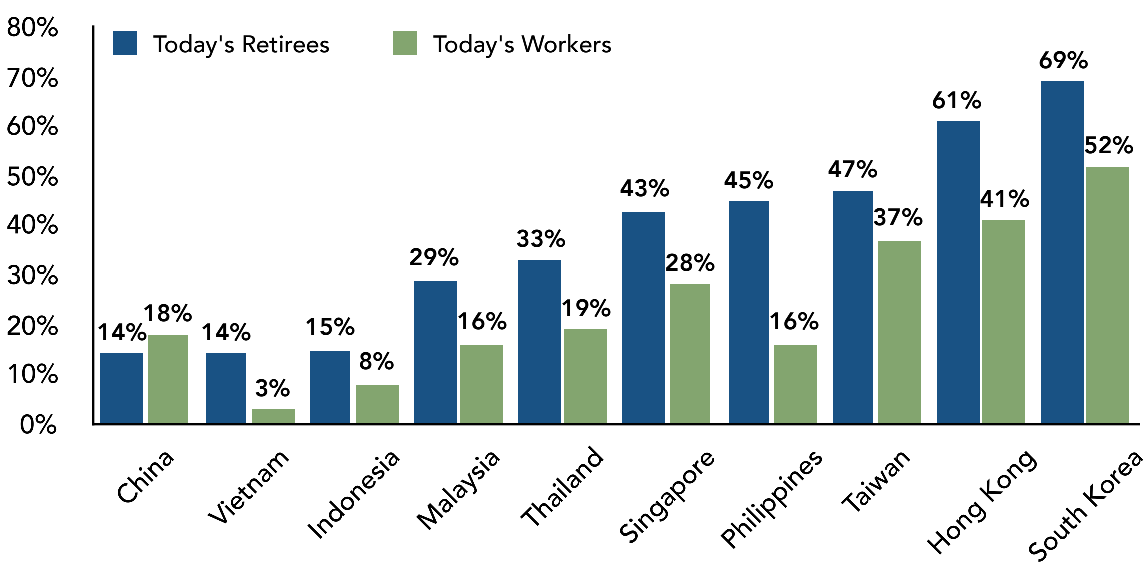
All of this helps to explain why such large shares of today's workers worry about "exhausting their savings" (65 percent), "being poor and in need of money" (64 percent), and "being in poor health and having no one to care for them" (73 percent) sometime during their retirement. In fact, today's workers actually worry more about each of these things than today's retirees do. A startling 41 percent of today's workers expect to have "a lot less income" in retirement than they do today—a share that may be significantly lower than the 61 percent of today's retirees who say that they now have a lot less income than when they were working, but that is larger than the equivalent share for today's workers everywhere else surveyed except South Korea. (See Figure 3.)

Up to now, the government has been able to assume that the vast majority of workers who reach old age without an adequate pension or personal savings would be supported by their extended families. That assumption can no longer be taken for granted. With birthrates in Hong Kong now among the lowest in the world, family size is shrinking. More individualistic western values are also beginning to compete with the traditional ethic of filial piety. When asked for their views about the obligations of grown children toward their parents, two-fifths of Hong Kongers agreed that "both parents and children are generally happier when they are independent and self-sufficient." (See Figure 4.) When asked more directly, "Who, ideally, should be mostly responsible for providing income to retired people," just 6 percent answered "grown children or other family members."

FIGURE 3

RETIREMENT INSECURITY IN HONG KONG REMAINS WIDESPREAD

Share of Today's Retirees Who Have "a Lot Less Income" Now Than When Working and Share of Today's Workers Expecting to Have "a Lot Less Income" When Retired

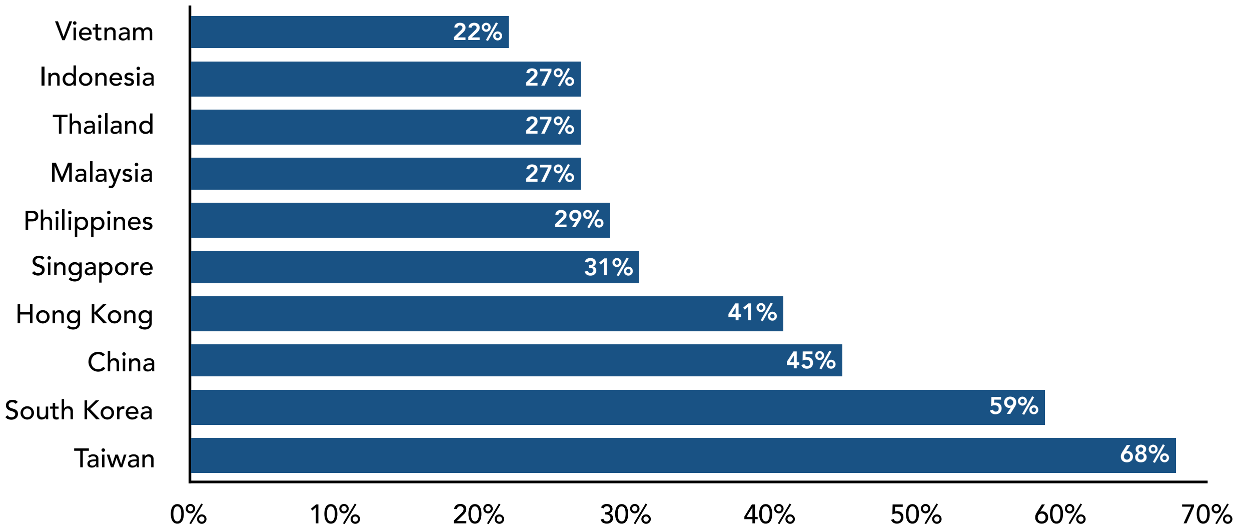


Source: East Asia Retirement Survey: Wave 2 (GAI, 2015)

FIGURE 4

MORE INDIVIDUALISTIC WESTERN VALUES ARE BEGINNING TO COMPETE WITH THE TRADITIONAL ETHIC OF FILIAL PIETY

Share of Respondents Saying "Both Parents and Children Are Generally Happier When They Are More Independent and Self-sufficient"



Source: East Asia Retirement Survey: Wave 2 (GAI, 2015)

As the role of the family in retirement security recedes in the years to come, Hong Kongers will have to rely much more heavily on the formal retirement system. Without reform, however, that system will almost certainly let them down.

A Framework for Reform

The shortcomings of Hong Kong's retirement system lie in its design parameters, rather than its basic structure, which is perfectly sound. Any retirement system has two functions. The first function is income replacement—that is, to allow workers to defer the receipt of some of the income they earn during their working years until their retirement years. Global best practice calls for handling income replacement through a defined contribution pension system in which benefits paid out are exactly proportional to contributions paid in, which is precisely how the MPF works. The second function is poverty protection. Whether it is because they were low lifetime earners or because they worked for part or all of their careers in uncovered employment, there will always be some workers who arrive in old age with inadequate contributory pension benefits. Ensuring that they enjoy a dignified old age requires subsidizing their retirement income. Rather than redistribute income within the contributory pension system, global best practice calls for handling these subsidies through separate noncontributory flat benefits or means-tested supplements, which is precisely what Hong Kong does.

The savings-based or funded model used by the MPF is also the right one for an aging Hong Kong. When societies are demographically young and economically growing, the pay-as-you-go model seems affordable. But as societies age and economic growth slows, its cost rises by leaps and bounds. For the moment, the advantage in Hong Kong still lies with the pay-as-you-go model, which might make switching to it politically tempting. If the MPF were financed on a pay-as-you-go basis, it could now offer equivalent benefits to those it is likely to deliver at a contribution rate of just 7 percent, well beneath the system's current 10 percent contribution rate. In the future, however, the advantage will shift ever more decisively to the funded model, which is why the pay-as-you-go temptation should be resisted. By 2050, financing equivalent benefits on a pay-as-you-go basis would require more than tripling the MPF's contribution rate to 25 percent. Meanwhile, financed on a funded basis, the contribution rate would still be 10 percent. (See Figure 5.)

Faced with this daunting fiscal arithmetic, governments around the world are now being compelled to make deep reductions in the future generosity of their pay-as-you-go state pension systems. South Korea, which had the poor timing to establish its pay-as-you-go National Pension System in 1988, just before its birthrate collapsed, has already slashed promised replacement rates from 70 to 40 percent, and with the system still careening toward bankruptcy, will undoubtedly have to slash them again. In mainland China, which like South Korea faces a massive aging challenge, average replacement rates under the Basic Pension System are falling like a stone. Germany and Japan have cut the future generosity of their pay-as-you-go state pension systems by roughly two-fifths, while Italy has cut the future generosity of its system by nearly one-half.[3]

Yet saying that the retirement model Hong Kong has adopted is the right one is not the same as saying that the retirement system is well designed. Far from it. The fact remains that Hong Kong's retirement system leaves a large share of the elderly vulnerable to hardship in old age, and that this is unlikely to change even after the MPF has matured.

The most fundamental problem is that contributions to the MPF are not sufficient to generate adequate replacement rates. The current MPF contribution rate is just 10 percent, split evenly between employers and employees. Under reasonable real wage growth and real rate of return assumptions, and given current MPF fee levels, this is unlikely to generate a final salary replacement rate for full-career workers of more than 30 to 35 percent, hardly enough to maintain preretirement living standards.[4] (See Table 1.)

Many workers, moreover, will not realize even this modest replacement rate. Those whose salaries are less than the MPF's floor on contributable wages (currently HK $7,100 per month, or about half the median wage) are exempt from making the employee half of the contribution, which means that, with a total contribution rate of 5 percent, their replacement rates will be half as large: just 15 to 17.5 percent.

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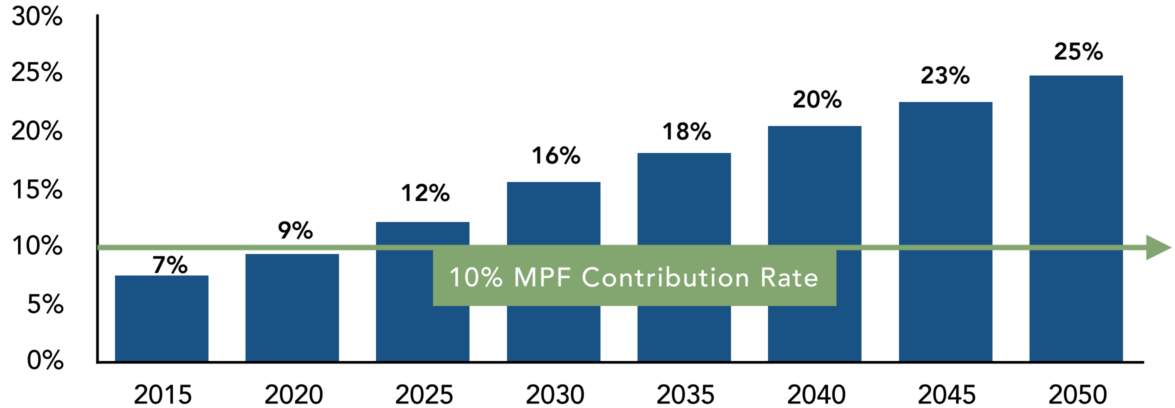
[3] For South Korea, see Neil Howe, Richard Jackson, and Keisuke Nakashima, *The Aging of Korea: Demographics and Retirement Policy in the Land of the Morning Calm* (Washington, DC: CSIS, 2007); for China, see Richard Jackson, Keisuke Nakashima, and Neil Howe, *China's Long March to Retirement Reform: The Graying of the Middle Kingdom Revisited* (Washington, DC: CSIS, 2009); and for Germany, Japan, and Italy, see Richard Jackson, *Lessons from Abroad for the U.S. Entitlement Debate* (Washington, DC: CSIS, 2014).

[4] Both real wage growth and real rates of return have a large potential impact on replacement rates. High rates of return push up replacement rates in funded pension systems, while high rates of wage growth pull them down. The 30 to 35 percent maximum range for MPF replacement rates assumes that, over the long term, real wage growth will be between 1.0 and 1.5 percent per year and that real rates of return are unlikely to exceed 4.0 to 4.5 percent per year.

FIGURE 5

THE COST OF A PAY-AS-YOU-GO PENSION SYSTEM WOULD RISE DRAMATICALLY AS HONG KONG AGES

Pay-As-You-Go Contribution Rate Required to Finance a 35 Percent Replacement Rate in Hong Kong, 2015-2050*



* Projections assume universal coverage, retirement at age 65, price indexation of current benefits, and 1.5 percent real wage growth.

Source: GAI calculations

TABLE 1

MPF REPLACEMENT RATES ARE LIKELY TO BE VERY LOW

MPF Replacement Rates in 2050 under Different Real Wage Growth and Real Rate of Return Assumptions*

REAL RATE OF RETURN	REAL WAGE GROWTH 2.5%	2.0%	1.5%	1.0%
3.0%	18%	19%	21%	24%
3.5%	21%	23%	25%	28%
4.0%	24%	27%	29%	33%
4.5%	28%	31%	34%	38%
5.0%	33%	36%	41%	45%

* Projections assume the current 10 percent MPF contribution rate, a 40-year career, retirement at age 65, and administrative fees equal to 1.5 percent of assets under management.

Source: GAI calculations

The same will be true for self-employed workers, who are exempt from making the employer half of the contribution. Workers whose salaries are greater than the MPF's ceiling on contributable wages (currently HK $30,000 per month, or roughly twice the median wage) will also have lower replacement rates if (as we should) we measure them as a share of total wages instead of contributable wages. There is also a peculiar feature of the MPF system known as the "offsetting arrangement," which allows employers to use the portion of MPF account balances attributable to employer contributions to defray the cost of severance pay benefits that they may owe to their employees. Workers subject to the offsetting arrangement will naturally have lower, and usually substantially lower, MPF replacement rates.

Every society must come to its own conclusions about how much retirement income should be supplied by the mandatory pension system and how much should be left to voluntary savings. Yet by any reasonable measure of adequacy, current MPF replacement rates are too low. At a minimum, the government should raise the MPF contribution rate to between 12.5 and 15 percent, which would boost replacement rates to between 40 and 50 percent, a level closer to international norms. It should also modify the rules that prevent many workers from actually accumulating savings at the full contribution rate. Specifically, this would involve lowering the contributable wage floor and raising the contributable wage ceiling, increasing the contribution rate for the self-employed, and phasing out the offsetting arrangement. For low-earning workers, the government could mitigate the burden with a system of subsides or matching contributions that cover part of the extra cost. All of these measures will be contentious, but there is no way around the fact that enjoying more adequate retirement benefits will require saving more.

Along with increasing savings, it is important to ensure that that savings is not consumed by fees. Total MPF fees now average 1.6 percent of assets under management, a level that is unusually high by international standards.[5] As a point of comparison, total fees in Chile's mandatory personal accounts system, whose basic structure is similar to the MPF's, are now just 0.6 percent of assets under management. As a rule of thumb, each 25 basis points increase in fees reduces ultimate account balances by roughly 5 percent. If MPF fees could somehow be lowered by 100 basis points to Chile's level, it would result in an increase in ultimate account balances, and hence replacement rates, of around 20 percent.

To its credit, the government has recently implemented a number of measures that should help to bring down MPF fees over time, including introducing "low cost" default funds, launching an online platform that allows workers to compare fees across funds, and taking the initial steps toward automating contributions, fund transfers, and recordkeeping, much of which is now done by hand. Achieving substantial reductions in fees, however, may also

[5] For the latest data on MPF fees, see *Mandatory Provident Fund Schemes Statistical Digest*, no. 2016-3 (Hong Kong: MPFA, March 2016); for comparative data on fees in funded pension systems around the world, see Liviu Ionescu and Edgar A. Robles, "Update of IOPS Work on Fees and Charges," IOPS Working Papers on Effective Pensions Supervision no. 20 (Paris: International Organization of Pension Supervisors, April, 2014). In addition, for a discussion of MPF fees and strategies for reducing them, see *Managing the Changing Landscape of Retirement Savings: Report on a Study of Administrative Costs in the Hong Kong Mandatory Provident Fund System* (Hong Kong: Ernst & Young, November 2012.)

require a more fundamental shift in philosophy. The MPF currently aims to be a "full service" retirement savings system that maximizes both the range of investment choices available to participants and the flexibility that participants have in transferring funds between different options. This kind of complexity adds to administrative burdens and pushes up fees, which is one reason global best practice seeks to limit it. Another reason is that a high degree of "consumer choice" is inconsistent with what ought to be the primary goal of a mandatory funded pension system like the MPF, which is to maximize risk-adjusted returns for its participants. Hong Kong policymakers should keep in mind that, while a high degree of choice may be appropriate in a voluntary pension system, the MPF is in effect Hong Kong's social insurance system, and the purpose of social insurance is not to facilitate choice but to protect people against the consequences of bad choices.

The design parameters governing the decumulation phase in a funded pension system are as important as those governing the accumulation phase. There is currently no requirement for annuitization of MPF account balances, which leaves retirees at risk of squandering and/or outliving their assets. Global best practice calls for at least partial annuitization. Unlimited lump-sum payouts, which are common in East Asian pension systems, are an atavistic relic of paternalistic employment arrangements and have no place in societies where people live so long. Policymakers may think that the public wants them, but the East Asia Retirement Survey suggests otherwise. When workers in Hong Kong were asked how they would prefer to receive their pension benefits, the share who said that they would prefer to receive them all in monthly payments exceeded the share who said that they would prefer to receive them in a single lump sum by three-to-one.

Improving the long-term adequacy of Hong Kong's retirement system should be the most important objective of reform, but it can by no means be the only objective. It is also essential to improve its near-term adequacy for those who are already retired or who are due to retire over the next decade or so. This could be achieved through a significant increase in the generosity of the means-tested Old Age Living Allowance, whose monthly benefit level is now about one-sixth of the median wage, or of the non-means-tested Old Age Allowance, whose monthly benefit level is now about one-twelfth of the median wage. Each approach has its advantages and disadvantages. The advantage of means-testing is that it is more economical; the disadvantage is that it is difficult to administer and creates disincentives for retirement savings. A universal, non-means-tested benefit would avoid these pitfalls, but would also be much more expensive. Whatever approach Hong Kong takes, a more adequate noncontributory pension is a social necessity, at least until the reformed MPF matures and all retirees are collecting more adequate contributory benefits. However it is structured, an enhanced backstop against poverty in old age will come at a significant cost. But ultimately that cost would be far less than the cost of financing the entire retirement system on a pay-as-you-go basis.

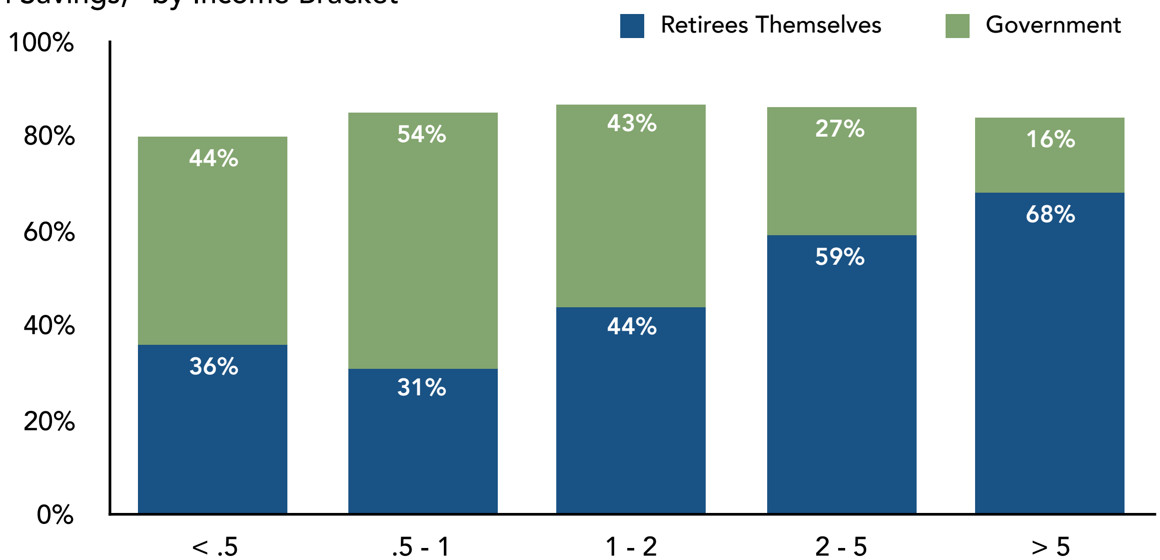
Room for Optimism

The East Asia Retirement Survey suggests that building consensus around a reform framework like the one just outlined will be challenging, and not only because it entails extra costs for government, employers, and individuals. A more fundamental obstacle is that Hong Kongers are deeply divided about the ideal shape of the retirement system. Although they agree that primary responsibility for retirement income

FIGURE 6

HONG KONGERS ARE DIVIDED ABOUT WHO SHOULD BE RESPONSIBLE FOR RETIREMENT INCOME

Share of Hong Konger Respondents Saying "Government" Should Be Mostly Responsible for Providing Retirement Income versus Share Saying "Retirees Themselves, through Their Own Savings," by Income Bracket*



* Income brackets are defined as multiples of the median household income.

Source: East Asia Retirement Survey: Wave 2 (GAI, 2015)

should no longer fall to the family, they disagree about what should take its place. A slight plurality of Hong Kongers favor individual, savings-based responsibility for retirement income (44 percent), but the share favoring government responsibility is nearly as large (41 percent). Moreover, views on the subject split along socioeconomic lines. Hong Kongers earning more than twice the median income are nearly twice as likely to support individual responsibility as those earning less than half of the median income. (See Figure 6.)

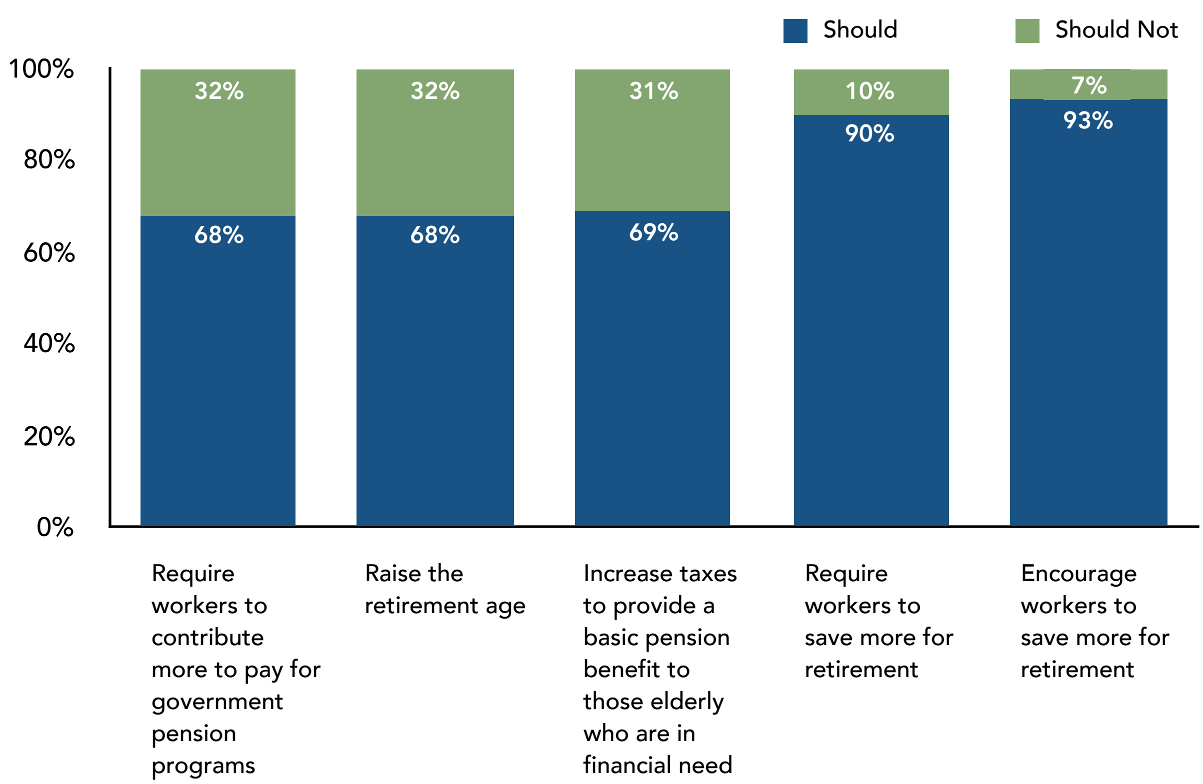
Yet as great as it is, this obstacle is surmountable. To begin with, the competing views about responsibility for retirement income may not be as mutually exclusive as they seem. There is a critical role for government to play in old-age poverty protection. When asked whether "government is doing enough to help today's workers prepare for retirement," Hong Kongers who disagreed outnumbered those who agreed by six-to-one. They are correct: Government needs to do more. But there is also a critical role for individuals to play in income replacement. The fact that less educated and lower-earning Hong Kongers are less likely to favor individual responsibility may be explained in large part by the fact that the benefits they can expect to receive from the MPF are trivial. If the assets that they were accumulating in the MPF were more substantial, they would have more of a stake in the system and might be more inclined to support it. As suggested above, government could facilitate this through subsidies or matching contributions that top up their MPF accounts, an approach to ensuring income adequacy for low earners that now forms part of global best practice. In short, the current preference of lower-income Hong Kongers for government responsibility is by no means inevitable. In Singapore, support for individual responsibility equals or exceeds support for government responsibility among respondents in every income bracket, even the very lowest.

Then there is the matter of attitudes toward the financial services industry. Although Hong Kongers are highly engaged in financial markets, they have a surprisingly low level of trust in the financial services industry. When asked whether "people can trust financial services companies to help them prepare for retirement," there were three respondents who disagreed for every one who agreed. Everywhere else in East Asia except South Korea and Taiwan, those who agreed outnumbered those who disagreed, and usually by a wide margin. This distrust may also be reflected in the strong preference of Hong Kongers for personal over professional management of financial assets, as well as in their reluctance to seek professional financial advice. Among today's workers, just 28 percent report having received professional advice about how to invest their retirement savings, fewer than in any East Asian society at a similar level of income and market development.

FIGURE 7

WHAT HONG KONGERS THINK ABOUT RETIREMENT REFORM

Share of Hong Kong Respondents Saying That Government Should or Should Not ...



Source: East Asia Retirement Survey: Wave 2 (GAI, 2015)

These attitudes could undermine the success of the MPF by stunting the development of a long-term investment culture. Clearly, the financial services industry will need to do a better job of educating the public about its indispensable role in helping people plan for retirement. Building trust will also require demonstrating that professional management adds value by delivering higher net risk-adjusted returns than workers could otherwise achieve. So long as MPF fees remain as high as they are this will be difficult to do.

Yet along with highlighting some potential obstacles to reform, the East Asia Retirement Survey also offers some encouraging news for policymakers. That news is that Hong Kongers would be willing to support a wide range of constructive government initiatives to improve retirement security. Substantial majorities would support increasing taxes to provide a basic pension benefit to those elderly who are in financial need (69 percent), requiring workers to contribute more to pay for government pension programs (68 percent), and raising the retirement age (68 percent). Far and away the highest levels of support, however, were reserved for measures that would increase retirement savings. Overwhelming majorities say that they would support reforms that encourage (93 percent) or require (90 percent) workers to save more for their own retirement. (See Figure 7.)

There is thus ample room for optimism about the future. The challenge may be great, but the basic building blocks of an adequate and sustainable retirement system are already in place. Hong Kong made the wise choice to opt for a funded retirement system. It has the well-developed capital markets needed to sustain it and the highly professional regulator needed to oversee it. Hong Kong also has achieved close to universal coverage among current workers, something that sets it apart from most East Asian societies. Yet without far-reaching reform, the retirement system will fail to achieve its promise. The time to take the next steps is now, before family support networks fray further and the looming age wave washes over the government's budget, limiting the scope for action.

Note on the East Asia Retirement Survey

The second wave of the East Asia Retirement Survey was designed by the Global Aging Institute (GAI) and conducted during the summer of 2014 by Ipsos Observer, a globally prominent survey firm. The survey was conducted in China, Hong Kong SAR, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam. All survey samples were randomly selected and nationally representative, except that the samples for China, Indonesia, the Philippines, Thailand, and Vietnam were limited to urban areas. The sample size was roughly 1,000, except for China, where it was roughly 1,500, and for Hong Kong and Singapore, where it was roughly 750. The margin of error for the survey at a 95 percent confidence interval ranged between a low of plus or minus 2.5 percentage points in China and a high of plus or minus 3.6 percentage points in Hong Kong and Singapore.

The survey universe consisted of household "main earners" aged 20 or older, including both current main earners and retired main earners. Most surveys dealing with retirement-related issues in emerging markets focus exclusively on middle- and upper-income households in the formal sector of the economy. The East Asia Retirement Survey encompasses a much broader cross section of the population, including the less educated and less affluent, and thus gives a more complete picture of retirement experience and expectations.

The survey was organized into three modules. The first module contained attitudinal questions designed to identify key social and cultural assumptions likely to affect the future direction of retirement behavior and policy. The second module turned to respondents' own personal retirement experience and expectations. Respondents who were already retired were asked about their current retirement circumstances, while those who had not yet retired were asked about their expected retirement circumstances. The third module collected basic demographic and economic data from the respondents, including their age, gender, and marital status; their educational attainment and employment history; and their household income and assets.

ABOUT THE GLOBAL AGING INSTITUTE

The Global Aging Institute (GAI) is a nonprofit research and educational organization dedicated to improving our understanding of global aging, to informing policymakers and the public about the challenges it poses, and to encouraging timely and constructive policy responses. GAI's agenda is broad, encompassing everything from retirement security to national security, and its horizons are global, extending to aging societies worldwide.

The Global Aging Institute was founded in 2014 and is headquartered in Alexandria, Virginia. Although GAI is new, its mission is not. Before launching the institute, Richard Jackson, GAI's president, directed a research program on global aging at the Center for Strategic and International Studies which, over a span of nearly 15 years, produced a large body of cutting-edge research and analysis that played a leading role in shaping the debate over what promises to be one of the defining challenges of the twenty-first century. GAI's Board of Directors is chaired by Thomas S. Terry, CEO of the Terry Group, who is slated to be president of the International Actuarial Association in 2017. To learn more about the Global Aging Institute, visit www.GlobalAgingInstitute.org.

ABOUT THE PACIFIC PENSION & INVESTMENT INSTITUTE

The Pacific Pension & Investment Institute (PPI) is a global organization with individual and institutional members from leading pension funds, sovereign wealth funds, endowments, foundations, and commercial asset management firms, as well as members who are independent investment experts. With more than $12 trillion (USD) in assets under management, our membership represents a powerful force in the global economy. Their investment decisions affect the prosperity and security of hundreds of millions of beneficiaries and stakeholders today and for future generations.

PPI has held educational programs for over two decades that inform the investment decisions of the world's major institutional investors as they relate to Asia, the Pacific Rim, and the world. These forums, exclusively for members, are conducted in a collegial, trusted, and marketing-free environment, which allows in-depth and off-the-record dialogue. This tradition of thought leadership and candid conversation are coveted aspects of the PPI experience. The high quality of PPI programs can be attributed to world-class content, expert speakers, and the high caliber international membership who attend.

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