The Future of Retirement in Hong Kong

Insights from Wave 2 of the East Asia Retirement Survey

Richard Jackson, President

Global Aging Institute

Retirement protection – a shared responsibility

退休保障－共同承擔

5TH ASIA-PACIFIC PENSIONS FORUM

GAI Global Aging Institute

asfa the voice of super

HKRSA 香港退休計劃協會 The Hong Kong Retirement Schemes Association

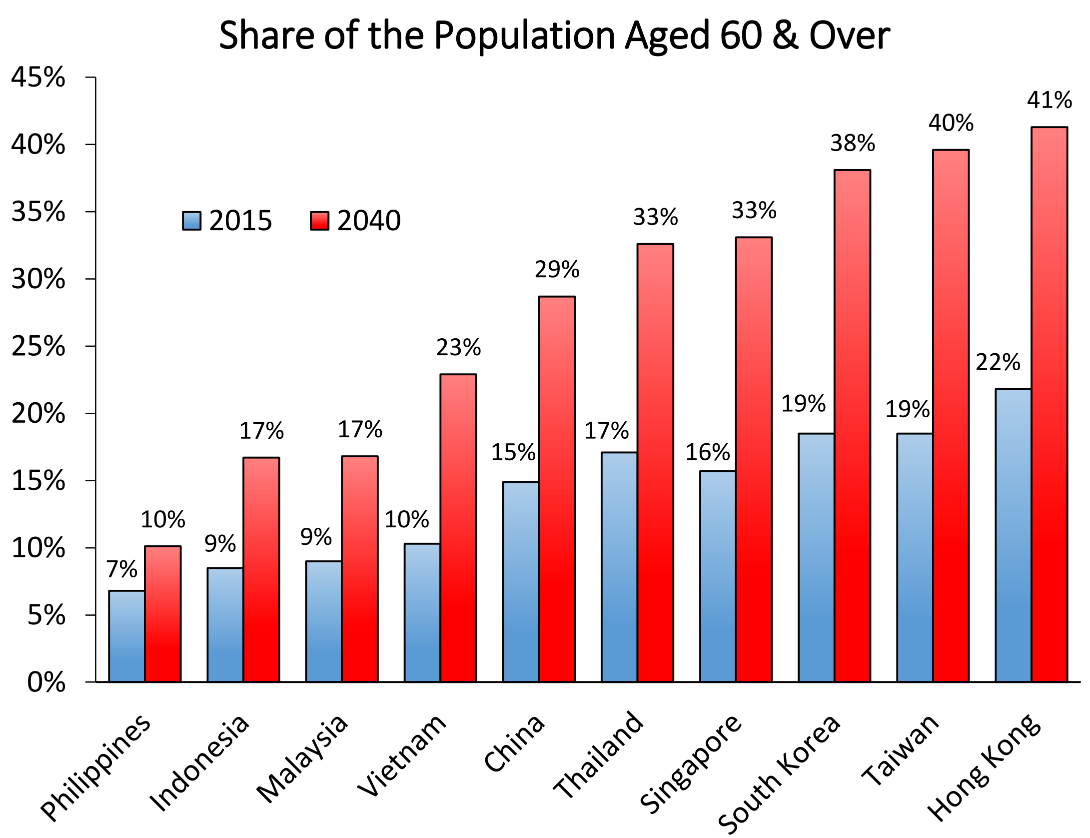
Survey framework

- Wave 2 of the East Asia Retirement Survey was conducted in 2014 in China, Hong Kong SAR, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Thailand, Taiwan, and Vietnam.
- The survey is nationally representative, except that the samples for China, Indonesia, the Philippines, Thailand, and Vietnam were limited to urban areas.
- The survey universe consists of "main earners" aged 20 and over, including both current main earners and retired main earners.
- Respondents were asked about their general attitudes toward retirement, as well as about their own retirement experience and expectations.
- Current retirees were asked about their current retirement experience, while current workers were asked about their retirement expectations.

Although the ten East Asian economies surveyed differ in critical respects, they also have important things in common.

Retirement protection – a shared responsibility
退休保障－共同承擔
5TH ASIA-PACIFIC PENSIONS FORUM

- There are enormous differences in per capita income, institutional capacity, market orientation, and extent of population aging across the ten economies surveyed.
- Yet all ten economies have at least two things in common: underdeveloped welfare states and retirement systems in which the extended family continues to play a far more important role than it does in the West.



Source: UN Population Division (2013)

Global Aging Institute

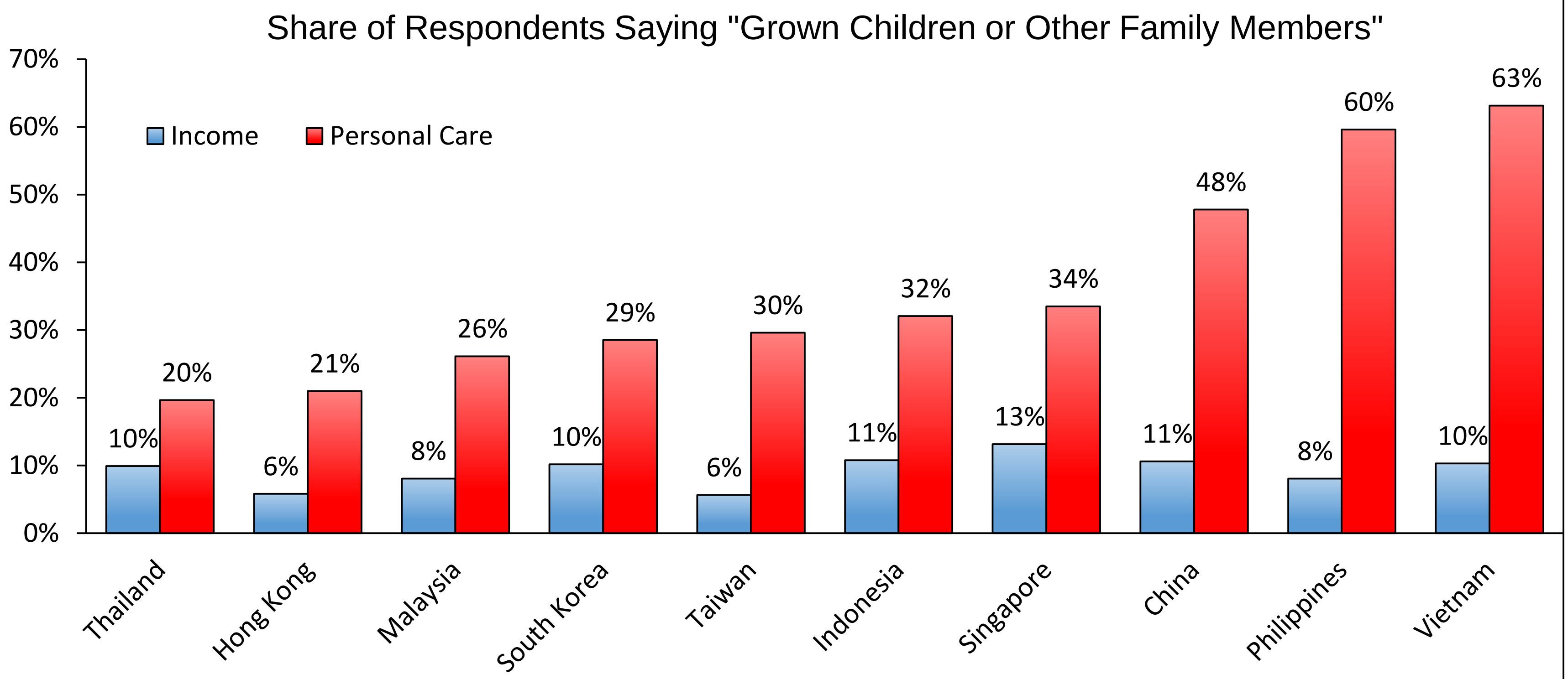
the voice of super

香港退休計劃協會
The Hong Kong Retirement Schemes Association

By overwhelming majorities, East Asians reject the traditional model of family-centered retirement security.

Retirement protection – a shared responsibility
退休保障－共同承擔
5TH ASIA-PACIFIC PENSIONS FORUM

"Who, ideally, should be mostly responsible for providing *income* to retired people?" and "Who, ideally, should be mostly responsible for providing *personal care* to retired people?"



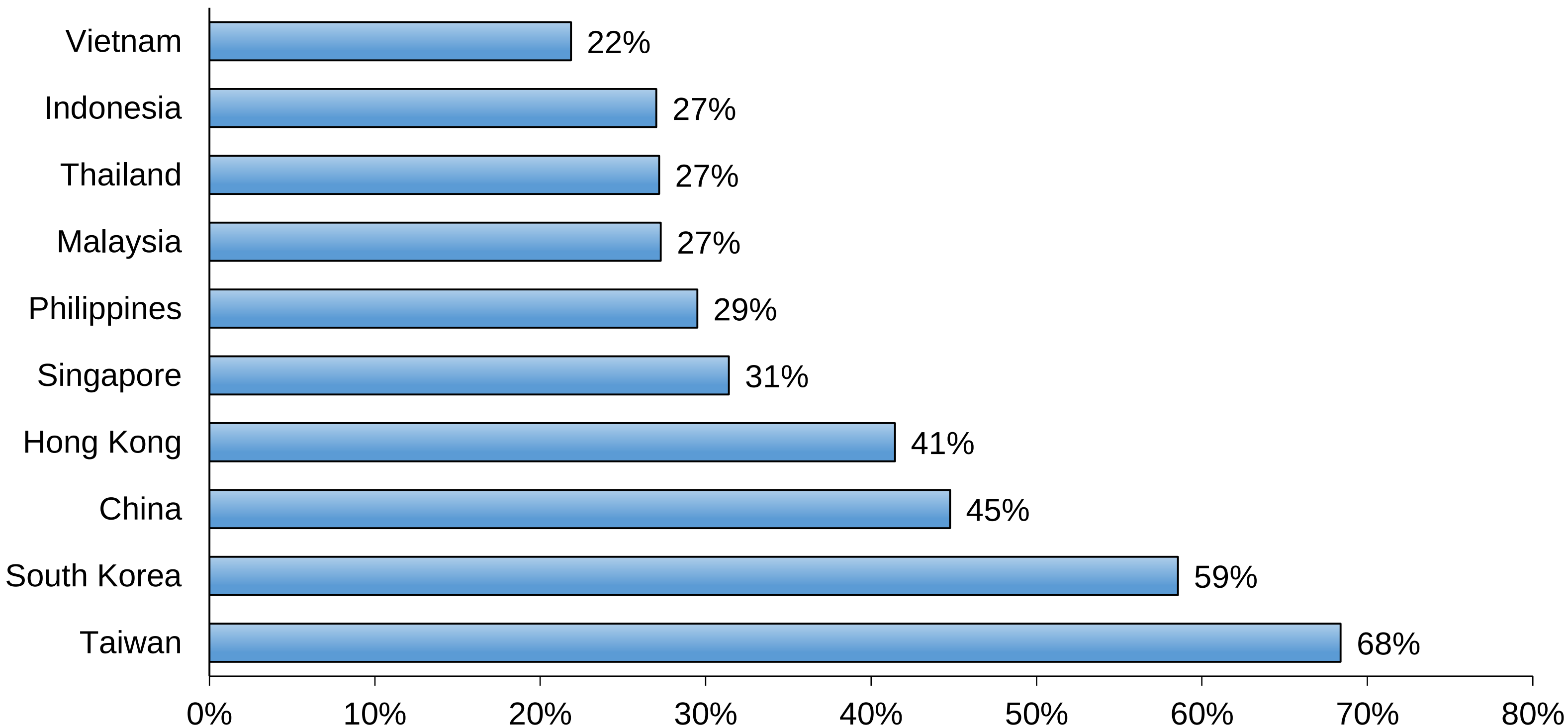
Global Aging Institute

asfa the voice of super

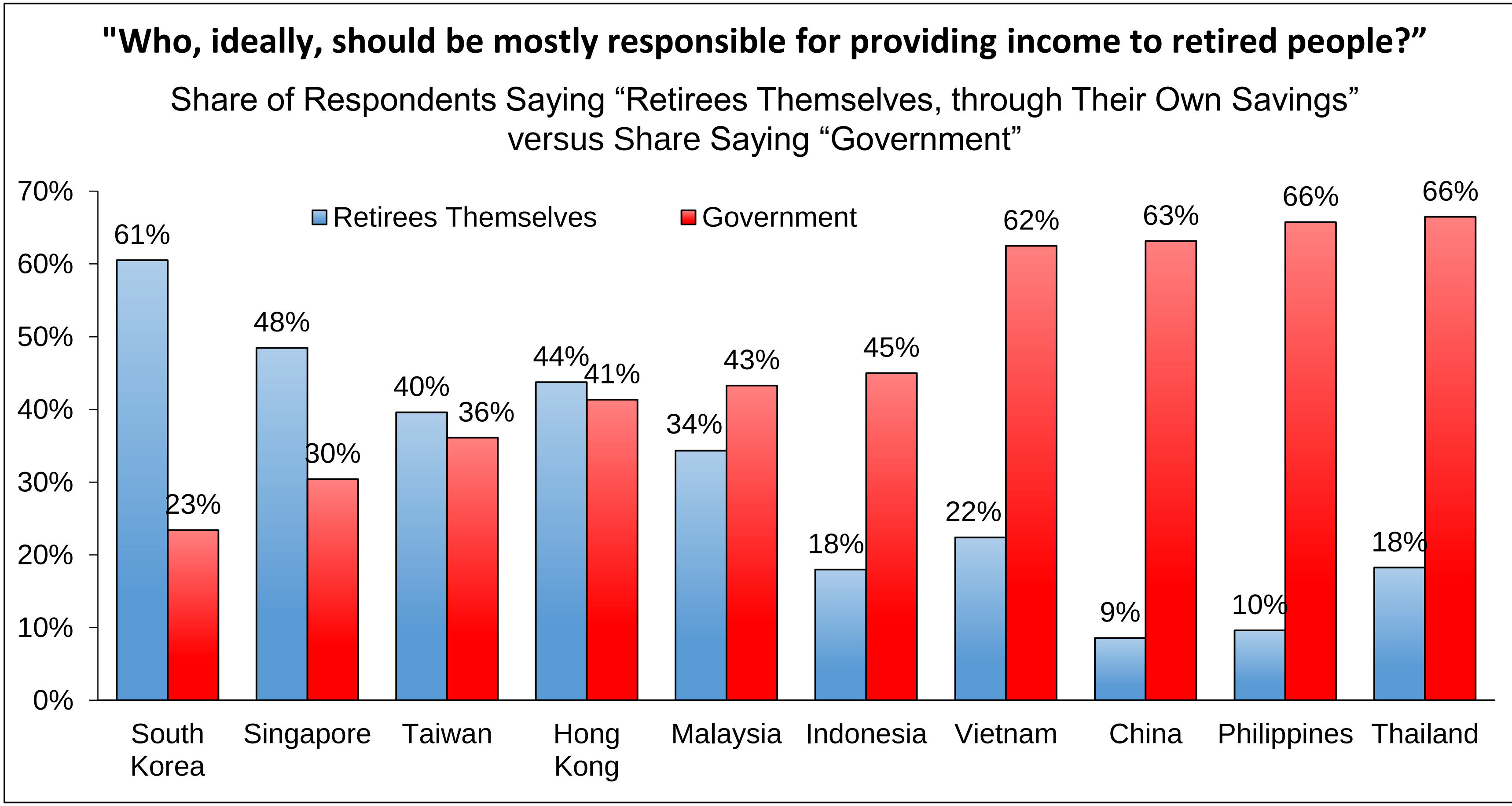
HKRSA 香港退休計劃協會 The Hong Kong Retirement Schemes Association

Along with declining family size, the shift is being driven by the diffusion of more individualistic "western" values.

Share of Respondents Agreeing that "Both parents and children are generally happier when they are more independent and self-sufficient."

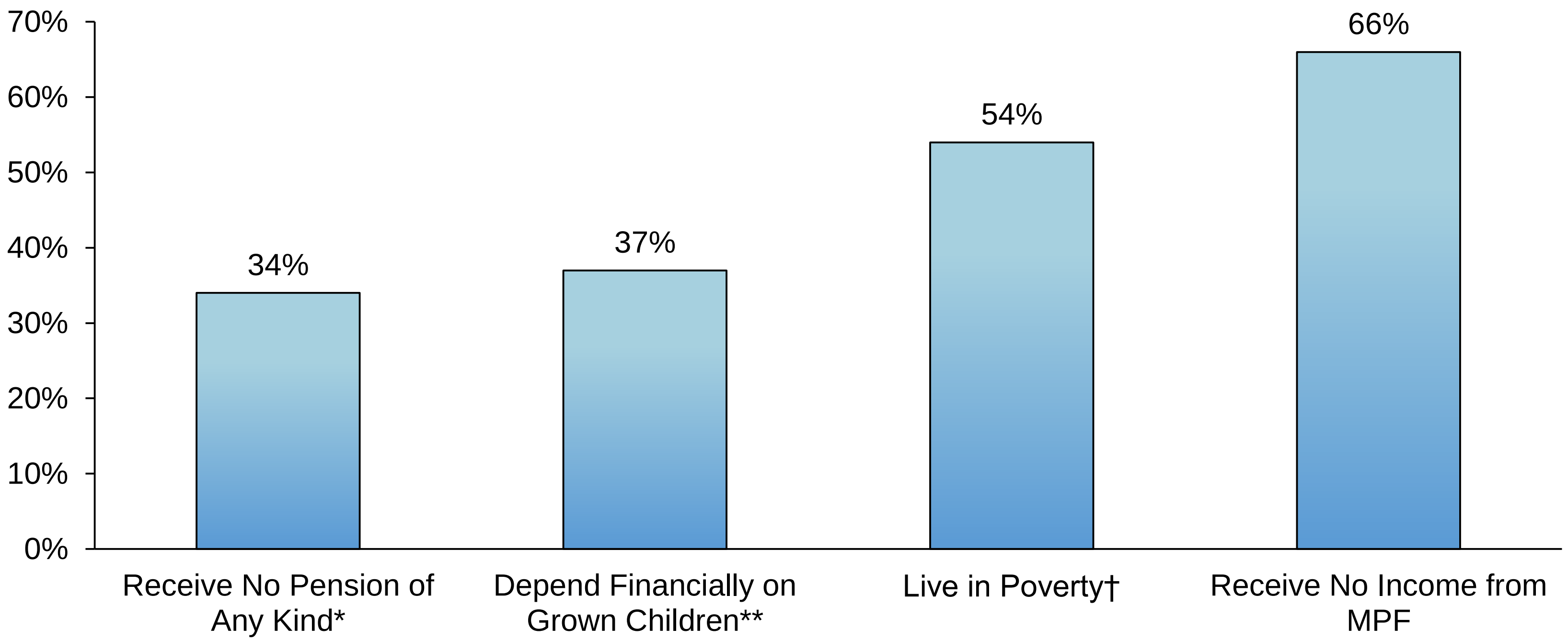


Views differ greatly across East Asia about who should replace the family as guarantor of retirement security.



By almost any measure, the economic circumstances of today's Hong Kong retirees are precarious.

Share of Today's Hong Kong Retirees Who…

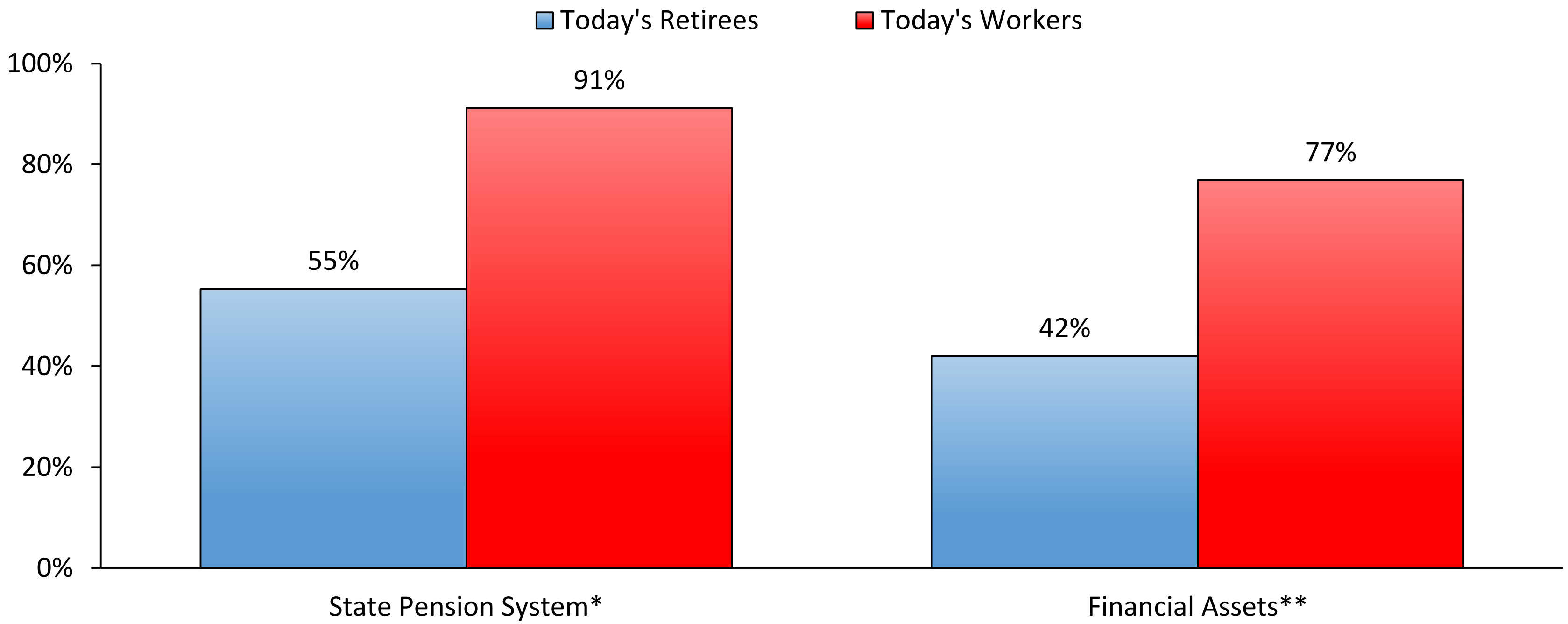


* Includes MPF, Social Security Allowance, civil service pensions, and ORSO and other private-employer pensions.
** "Depend" means net recipient of income from grown children.
† "Poverty" means an income of less than 50% of the median income.

With rates of pension and asset income receipt due to rise in Hong Kong, the outlook for today's workers is improving.

Retirement protection – a shared responsibility
退休保障－共同承擔
5TH ASIA-PACIFIC PENSIONS FORUM

Shares of Today's Retirees Receiving Income and Shares of Today's Workers Expecting to Receive Income from the State Pension System* and Financial Assets in Hong Kong**



* "State pension system" includes MPF and Social Security Allowance.
** "Financial assets" include insurance and annuity products and stocks, bonds, and mutual funds, but exclude bank deposits.

GAI Global Aging Institute

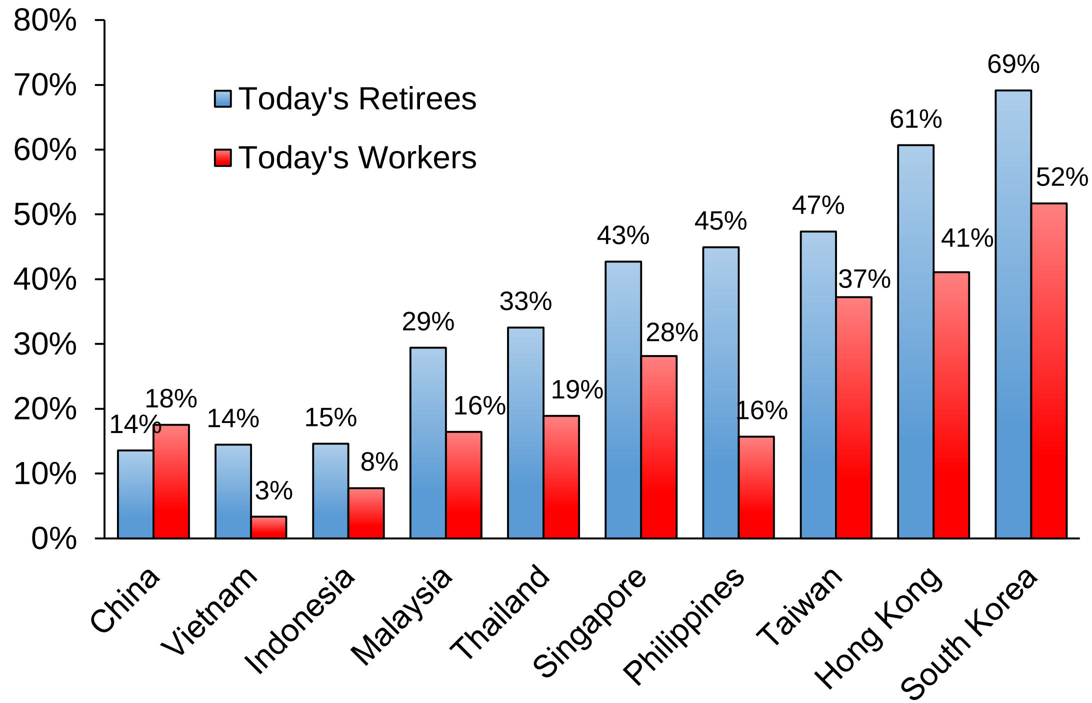
asfa the voice of super

HKRSA 香港退休計劃協會 The Hong Kong Retirement Schemes Association

Despite the positive trends, a large share of Hong Kong workers remain at risk of economic hardship in old age.

- Although MPF receipt rates are due to rise rapidly when today's workers retire, replacement rates are likely to be very low.
- For many of today's workers, the expectation of asset income receipt is merely aspirational.
- Meanwhile, today's workers expect to receive much less support from the extended family than today's retirees do.

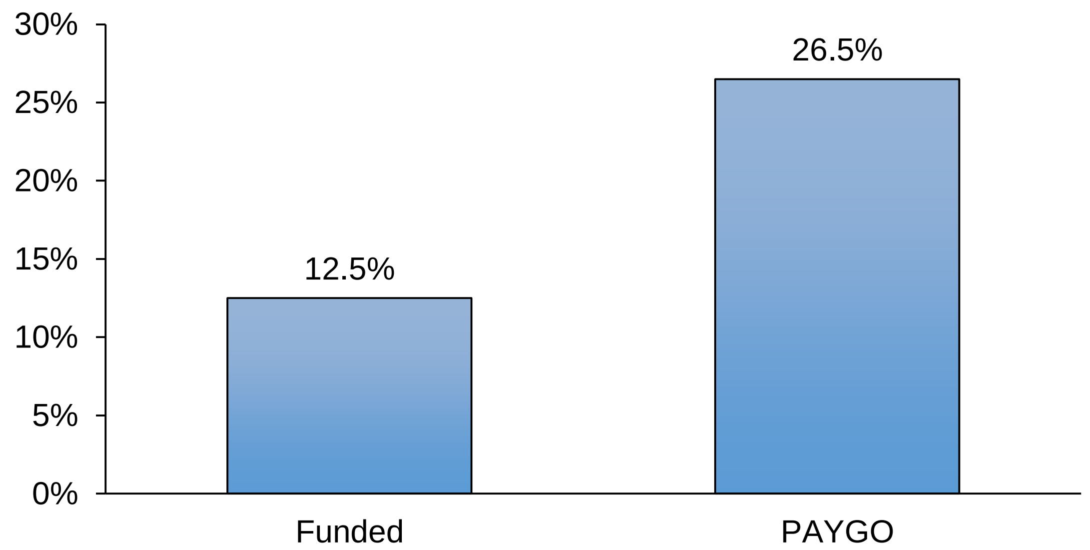
Share of Today's Retirees Who Have "a Lot Less Income" Now Than When Working and Share of Today's Workers Expecting to Have "a Lot Less Income" When Retired



As societies age, funded pension systems can deliver adequate benefits at much lower cost than PAYGO systems can. Without reform, however, the MPF will fail to realize its promise.

- Both the current MPF contribution rate and ceiling on contributable wages need to be raised.
- MPF administrative charges greatly exceed international norms and must be lowered.
- The MPF also needs to be back-stopped by a more robust floor of tax-financed old-age poverty protection.

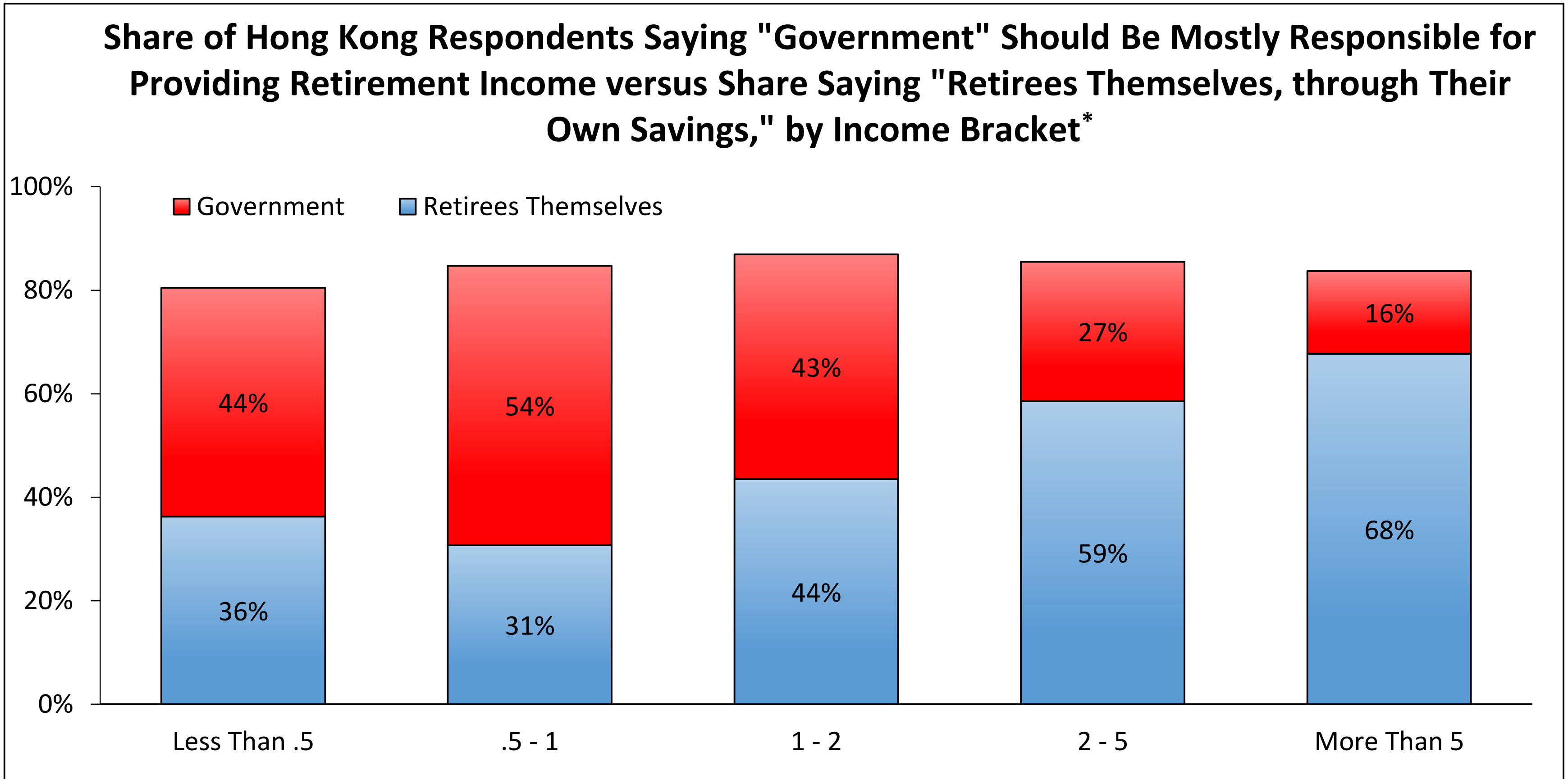
Contribution Rate Required to Deliver a 50 Percent Replacement Rate for Hong Kong Retirees in 2050: Projections for Stylized PAYGO and Funded Pension Systems*



* Funded pension system projections assume real wage growth of 2.0%, a real rate of return of 4.5%, a 40-year career, retirement at age 65, and administrative charges equal to 0.5% of assets. PAYGO projections assume retirement at age 65 and price indexation of current benefits.

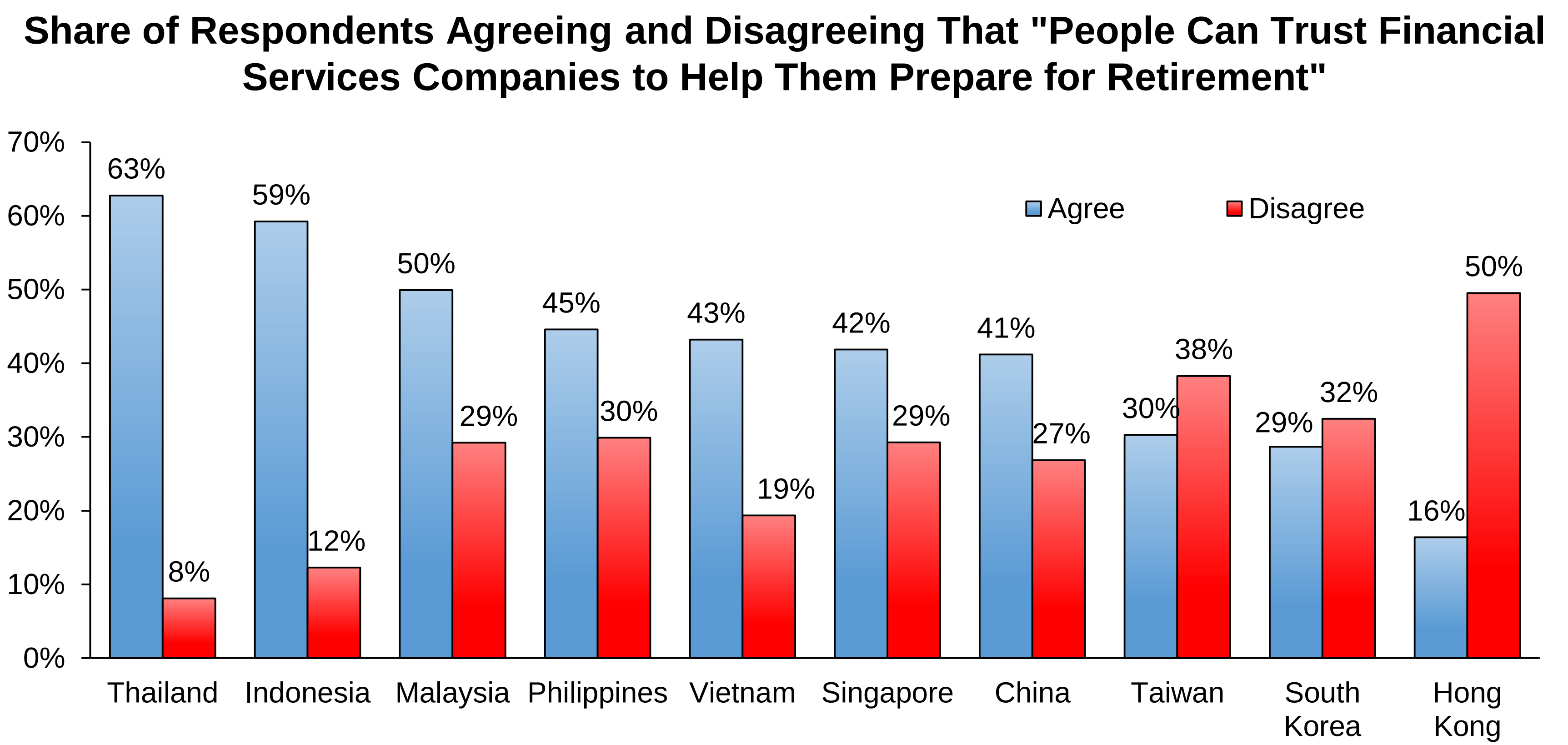
Source: GAI calculations

The bad news for reform: Hong Kongers are deeply divided about who should be responsible for retirement income.



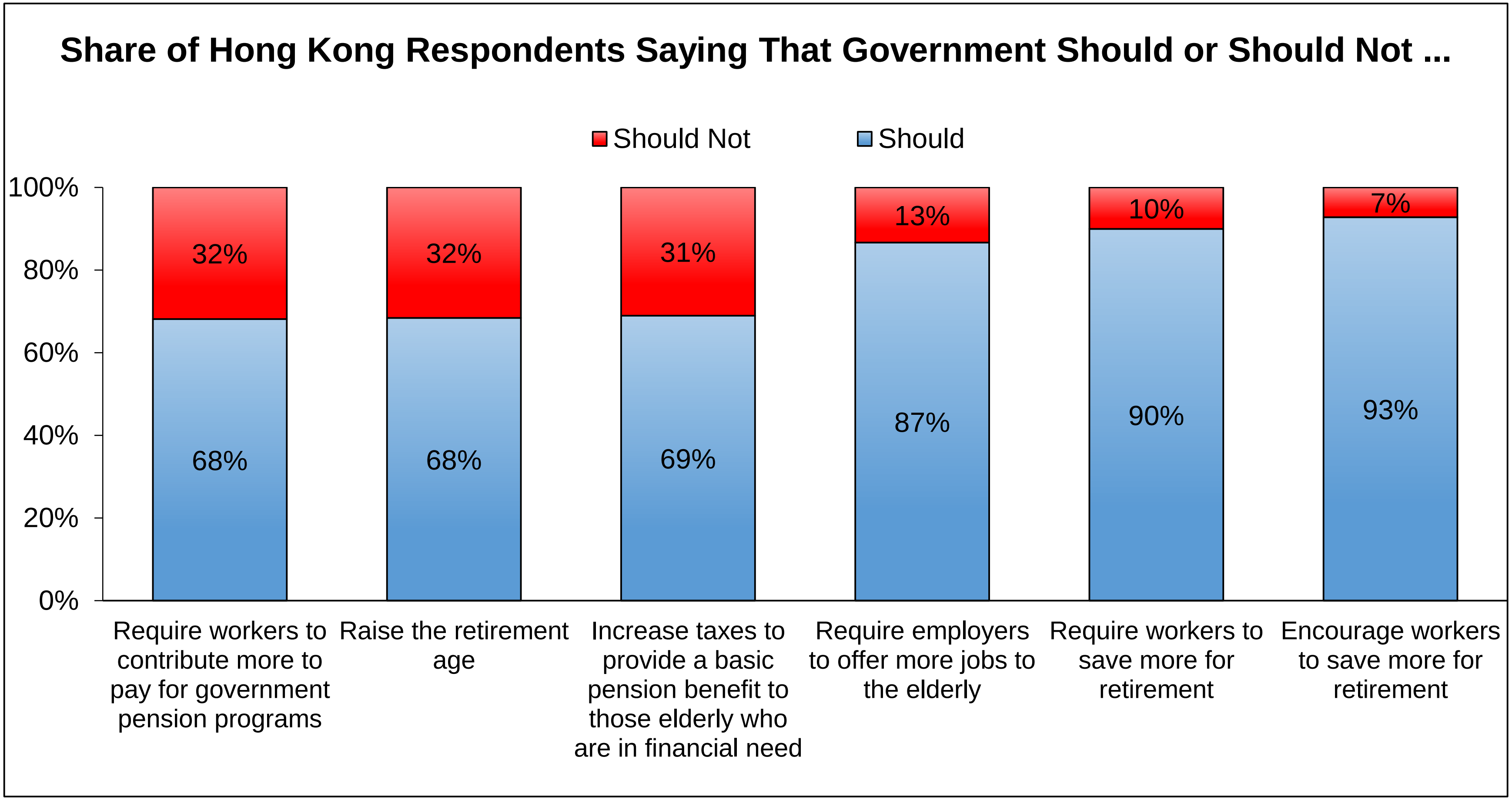
* Income brackets are defined as multiples of the median household income.

The bad news for reform: Hong Kongers' level of trust in the financial services industry is very low.



Note: This question used a five-point scale, with 1 being strongly disagree and 5 being strongly agree. "Agree" = 4 + 5 and "Disagree" = 1 + 2.

The good news for reform: Hong Kongers would support a wide range of constructive government initiatives to improve retirement security.



Conclusions

- The traditional role of the family in providing for the elderly is receding in East Asia, yet adequate government and market substitutes have not yet been put in place. The result is widespread retirement insecurity.
- Savings-based retirement systems like Hong Kong's have large potential advantages over PAYGO systems in aging societies. Hong Kong's current system, however, is inadequate and needs to be reformed.
- For reform to succeed, the government will need to balance the public's competing views about the role of the individual and the state in retirement provision, while the financial services industry will need to better educate the public abut its role in helping people prepare for retirement.
- The time to act is now, while Hong Kong's population is still relatively young and the public's support for reform is strong. If Hong Kong waits until its age wave rolls in, the task will become much more difficult.

Retirement protection – a shared responsibility
退休保障－共同承擔

5TH ASIA-PACIFIC PENSIONS FORUM

GLOBAL AGING INSTITUTE

GlobalAgingInstitute.org

GAI Global Aging Institute

asfa the voice of super

HKRSA 香港退休計劃協會 The Hong Kong Retirement Schemes Association