

A WEBINAR ON THE GAI-PPI ISSUE BRIEF

Meeting Hong Kong's Retirement Challenge

by Richard Jackson



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.

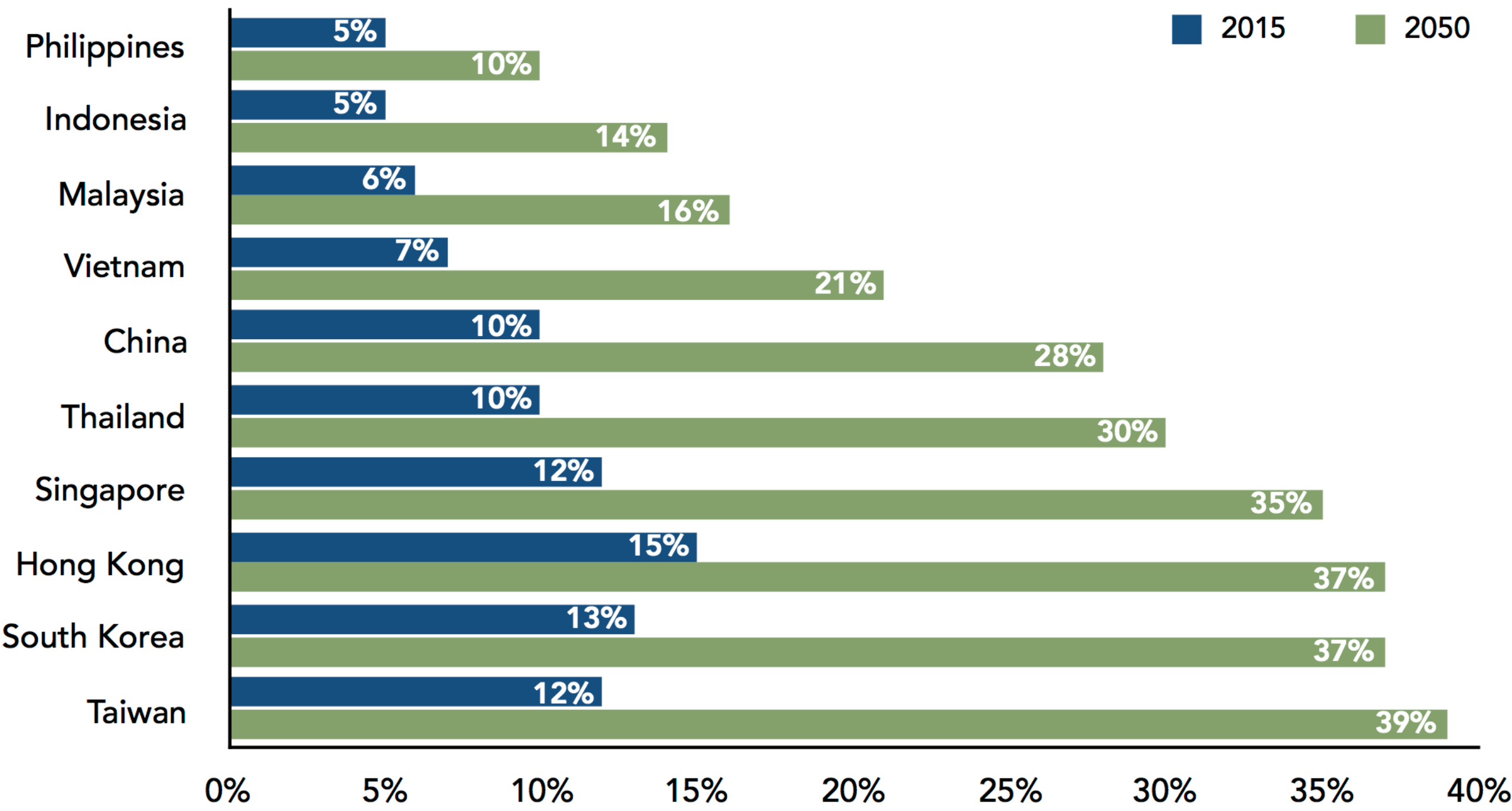
About the Author



Richard Jackson is the founder and president of the Global Aging Institute (GAI), as well as a senior associate at the Center for Strategic and International Studies and a senior advisor to the Concord Coalition. Richard is the author or co-author of numerous policy studies, including *From Challenge to Opportunity: Wave 2 of the East Asia Retirement Survey* (2015); *Global Aging and Retirement Security in Emerging Markets: Reassessing the Role of Funded Pensions* (2015); *Lessons from Abroad for the U.S. Entitlement Debate* (2014); *The Global Aging Preparedness Index, Second Edition* (2013); and *The Graying of the Great Powers: Demography and Geopolitics in the 21st Century* (2008). Richard speaks regularly on policy issues related to the aging of the population and is widely quoted in the media. He holds a Ph.D. in history from Yale University and lives in Alexandria, Virginia, with his wife Perrine and their three children, Benjamin, Brian, and Penelope.

MUCH OF EAST ASIA IS BEING OVERTAKEN BY MASSIVE AGE WAVES

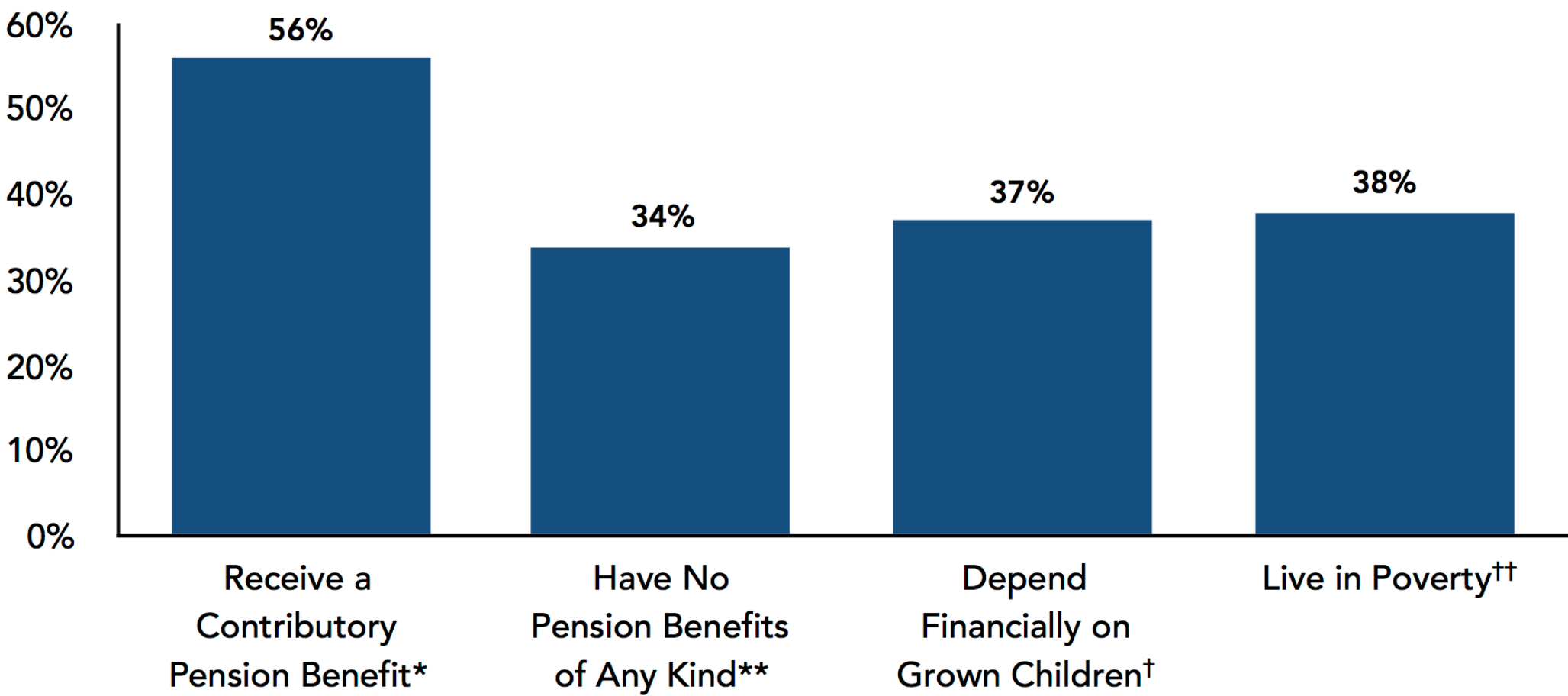
Share of the Population Aged 65 & Over in 2015 and 2050



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

BY ALMOST ANY MEASURE, THE ECONOMIC CIRCUMSTANCES OF CURRENT RETIREES IN HONG KONG ARE PRECARIOUS

Share of Today's Retirees in Hong Kong Who...

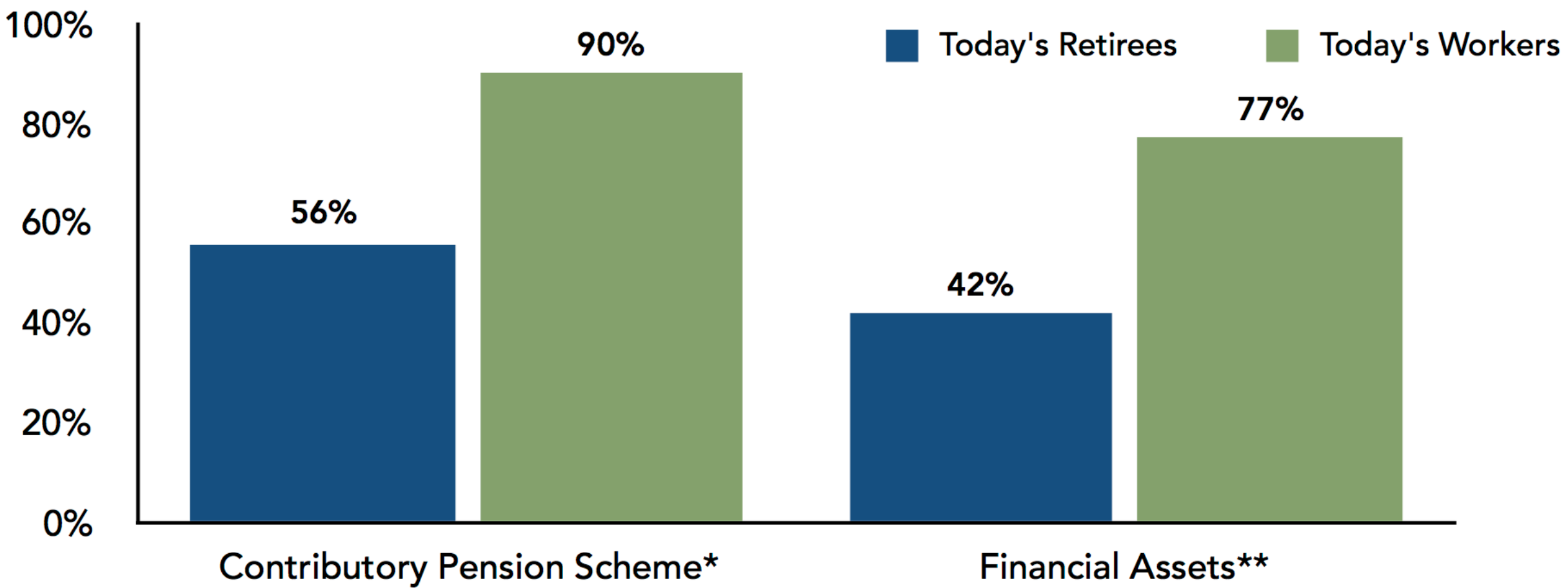


* Includes the MPF, civil service pensions, and ORSO schemes.
** In addition to contributory pension benefits, includes the Old Age Allowance and Old Age Living Allowance.
† "Depend" means net recipient of income from children.
†† "Poverty" means an income of less than 50 percent of the median income.

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

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

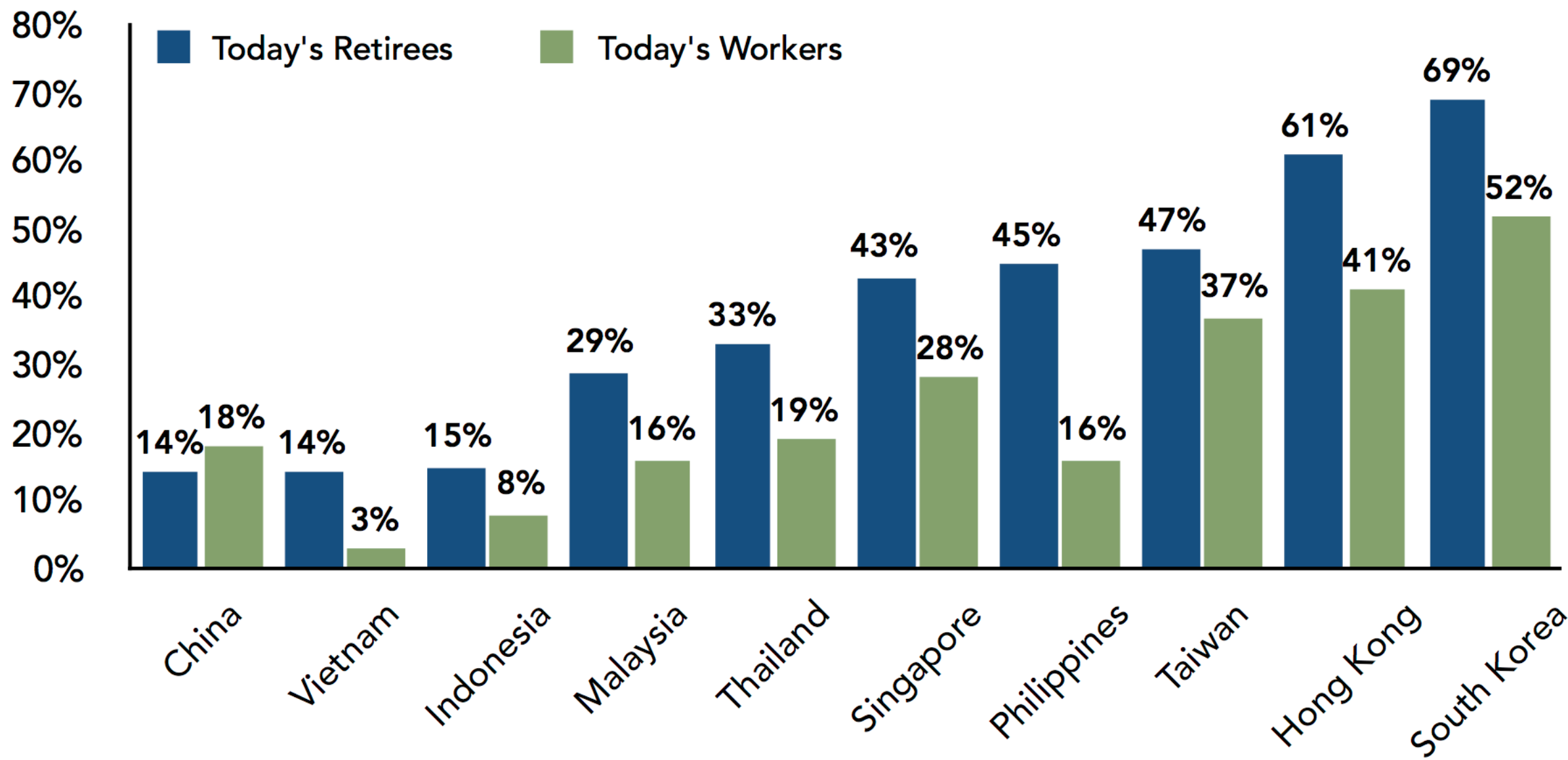


* Contributory pension schemes include the MPF, civil service pensions, and ORSO schemes.
** Financial assets include insurance and annuity products and stocks, bonds, and mutual funds, but exclude bank deposits.

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

ALTHOUGH THE OUTLOOK FOR TODAY'S WORKERS IS IMPROVING, RETIREMENT INSECURITY IN HONG KONG WILL REMAIN WIDESPREAD

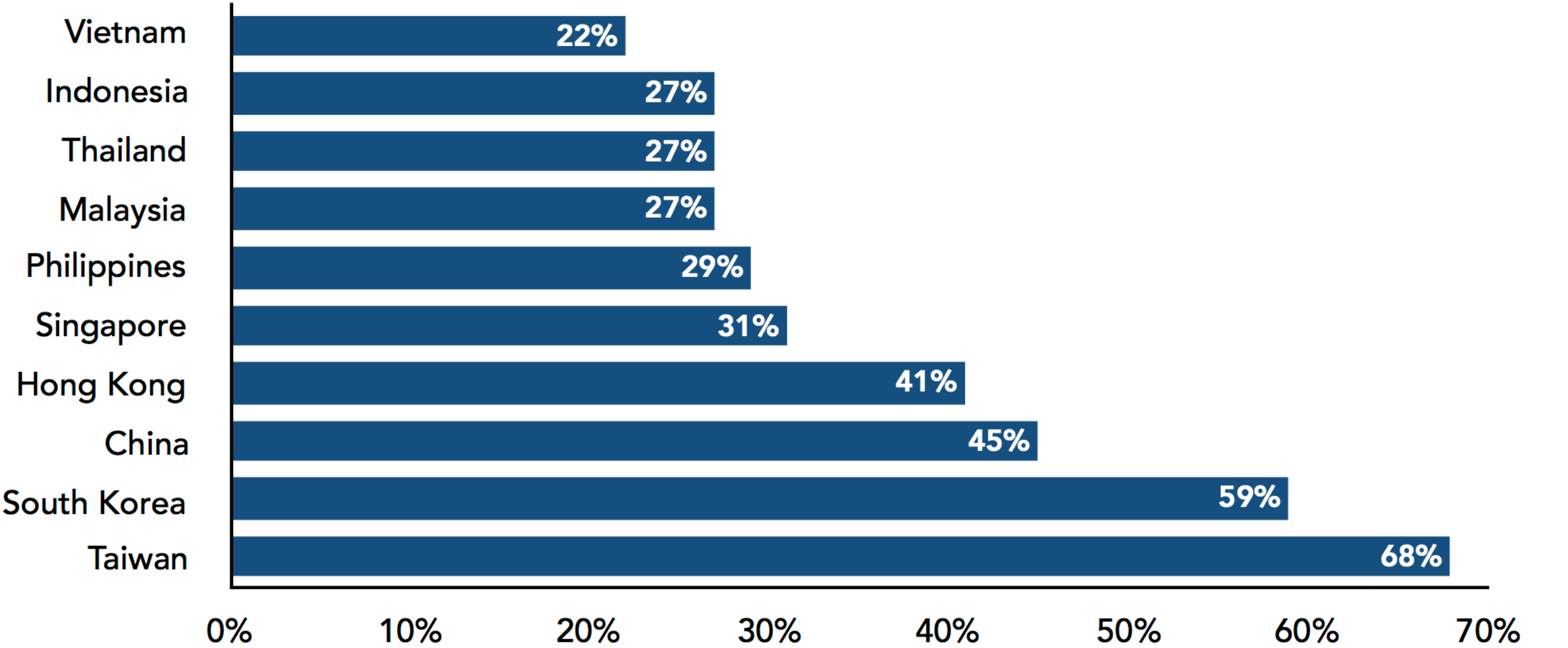
Share of Today's Retirees Who Have "a Lot Less Income" Now Than When Working and Share of Today's Workers Expecting to Have "a Lot Less Income" When Retired



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

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

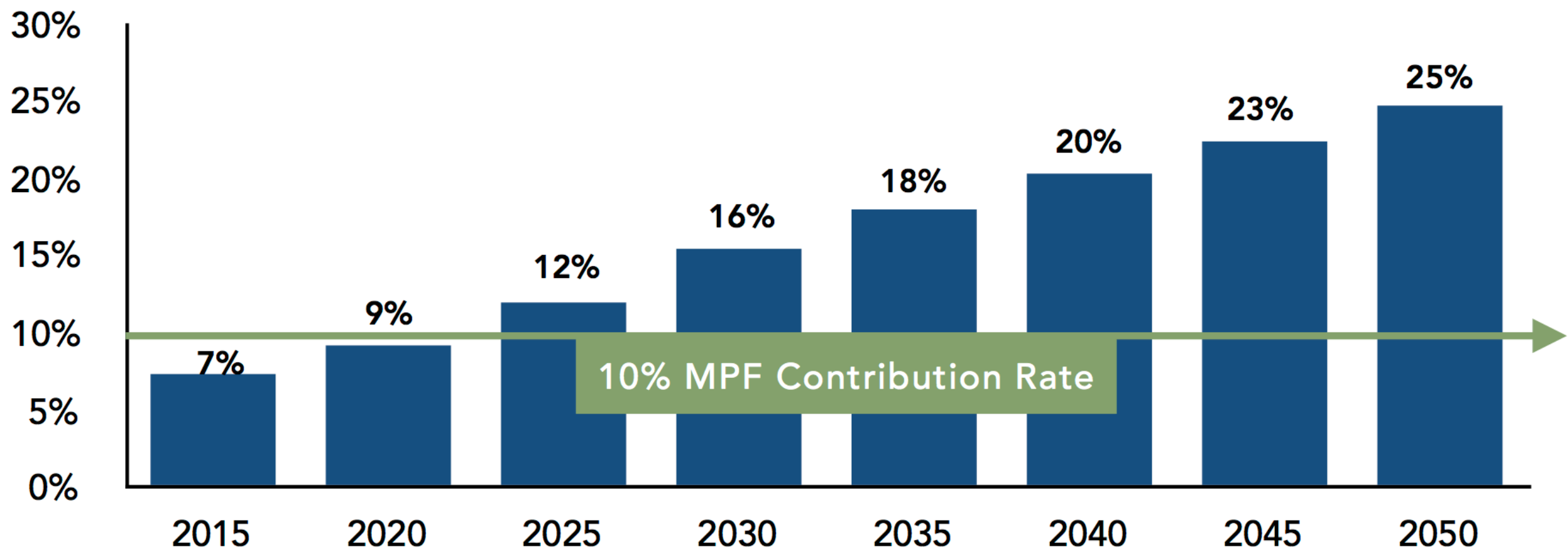
Share of Respondents Saying "Both Parents and Children Are Generally Happier When They Are More Independent and Self-sufficient"



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

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

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*

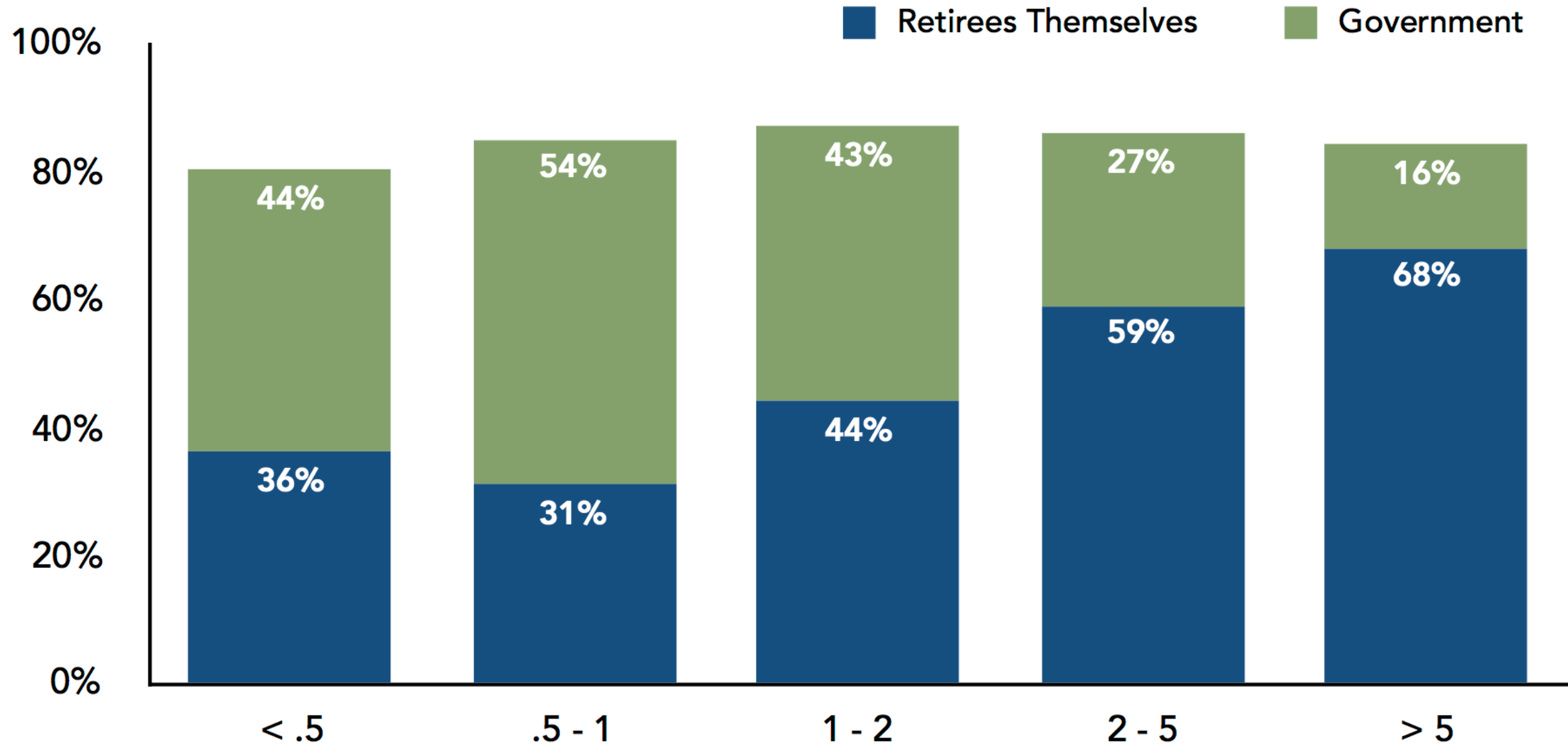
		REAL WAGE GROWTH			
		2.5%	2.0%	1.5%	1.0%
REAL RATE OF RETURN	3.0%	18%	19%	21%	24%
	3.5%	21%	23%	25%	28%
	4.0%	24%	27%	29%	33%
	4.5%	28%	31%	34%	38%
	5.0%	33%	36%	41%	45%

* 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

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*

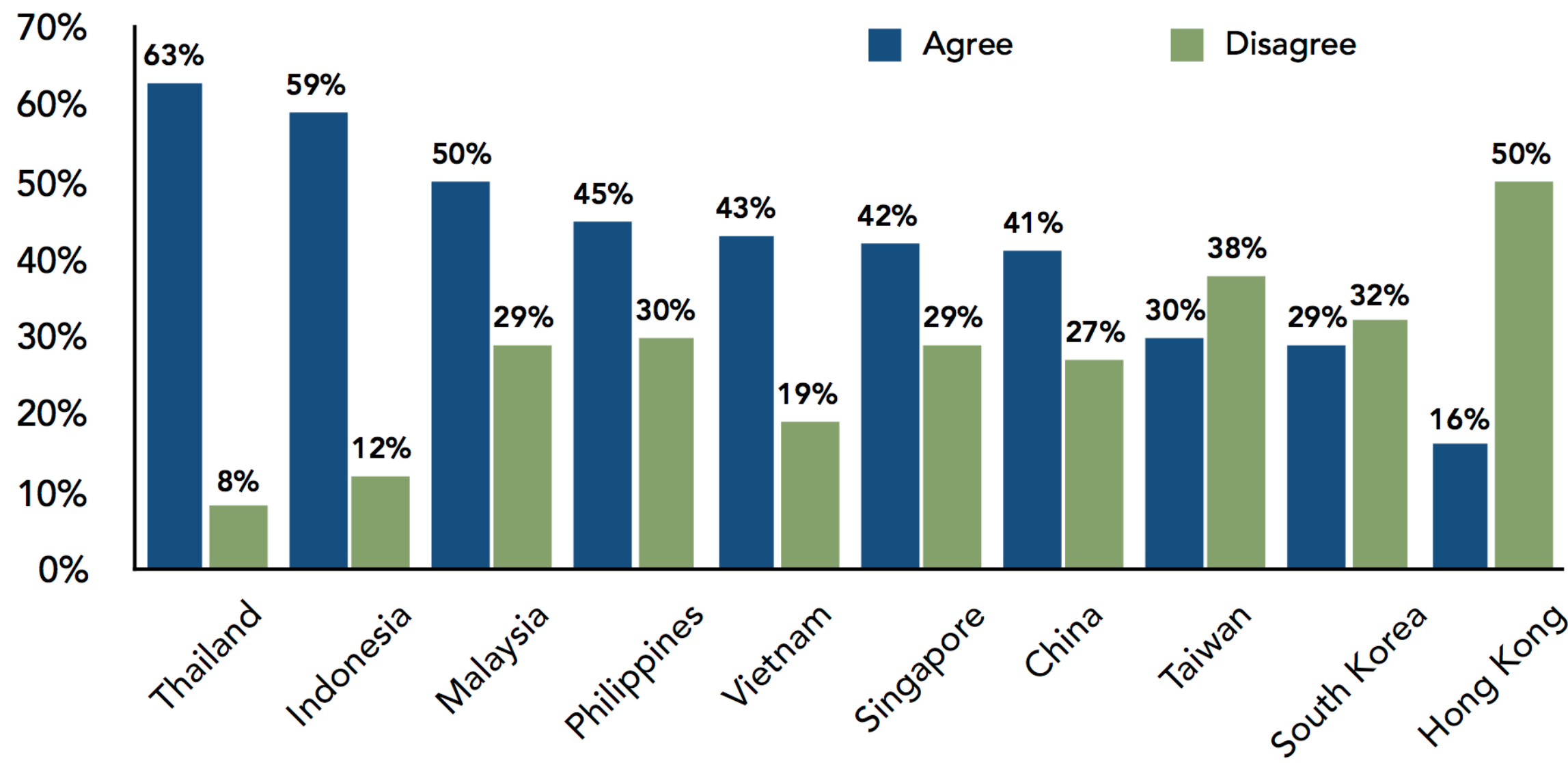


* Income brackets are defined as multiples of the median household income.

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

THE LEVEL OF TRUST OF HONG KONGERS IN THE FINANCIAL SERVICES INDUSTRY IS SURPRISINGLY LOW

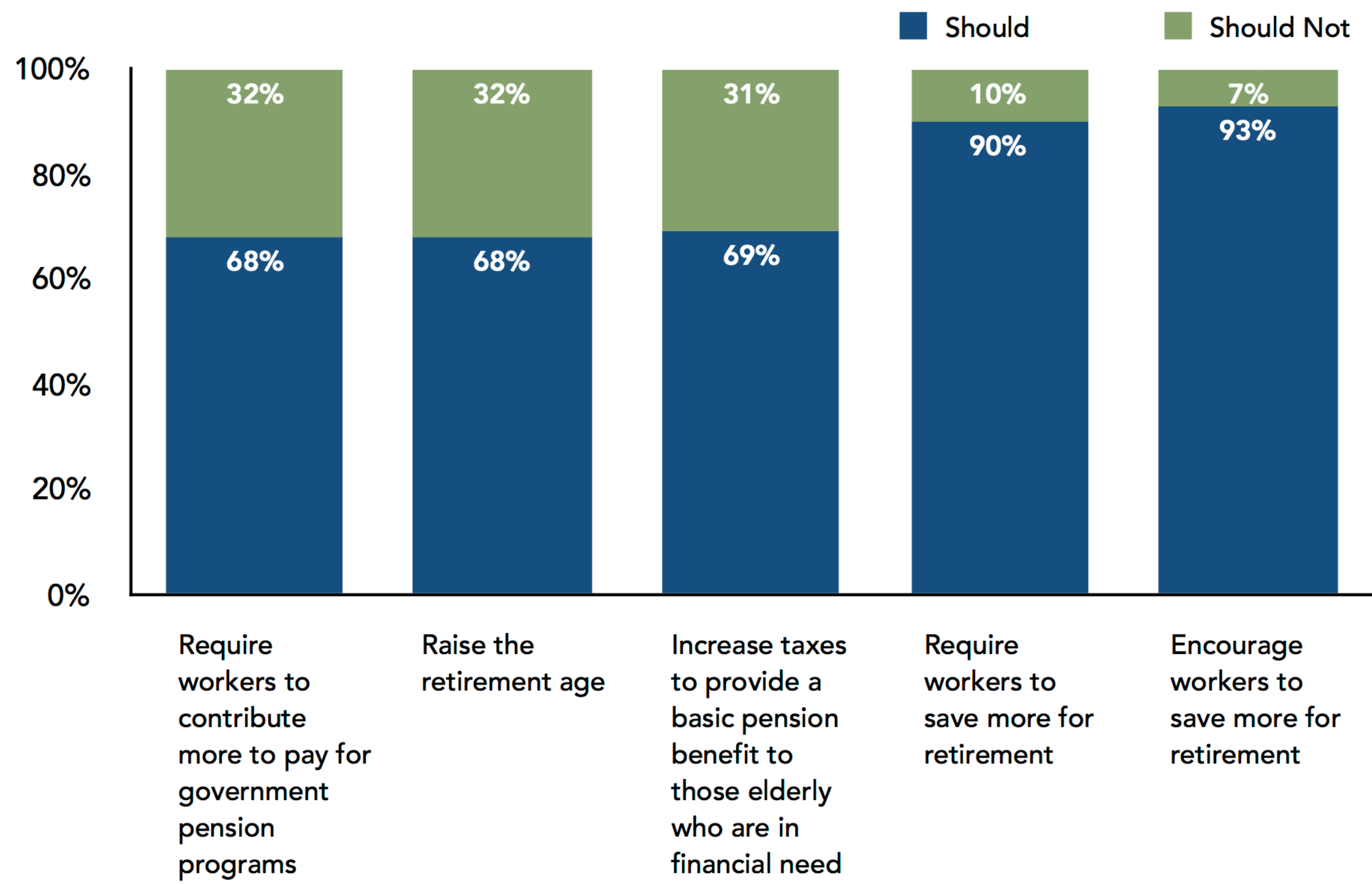
Share of Respondents Agreeing and Disagreeing That "People Can Trust Financial Services Companies to Help Them Prepare for Retirement"



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

WHAT HONG KONGERS THINK ABOUT RETIREMENT REFORM

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

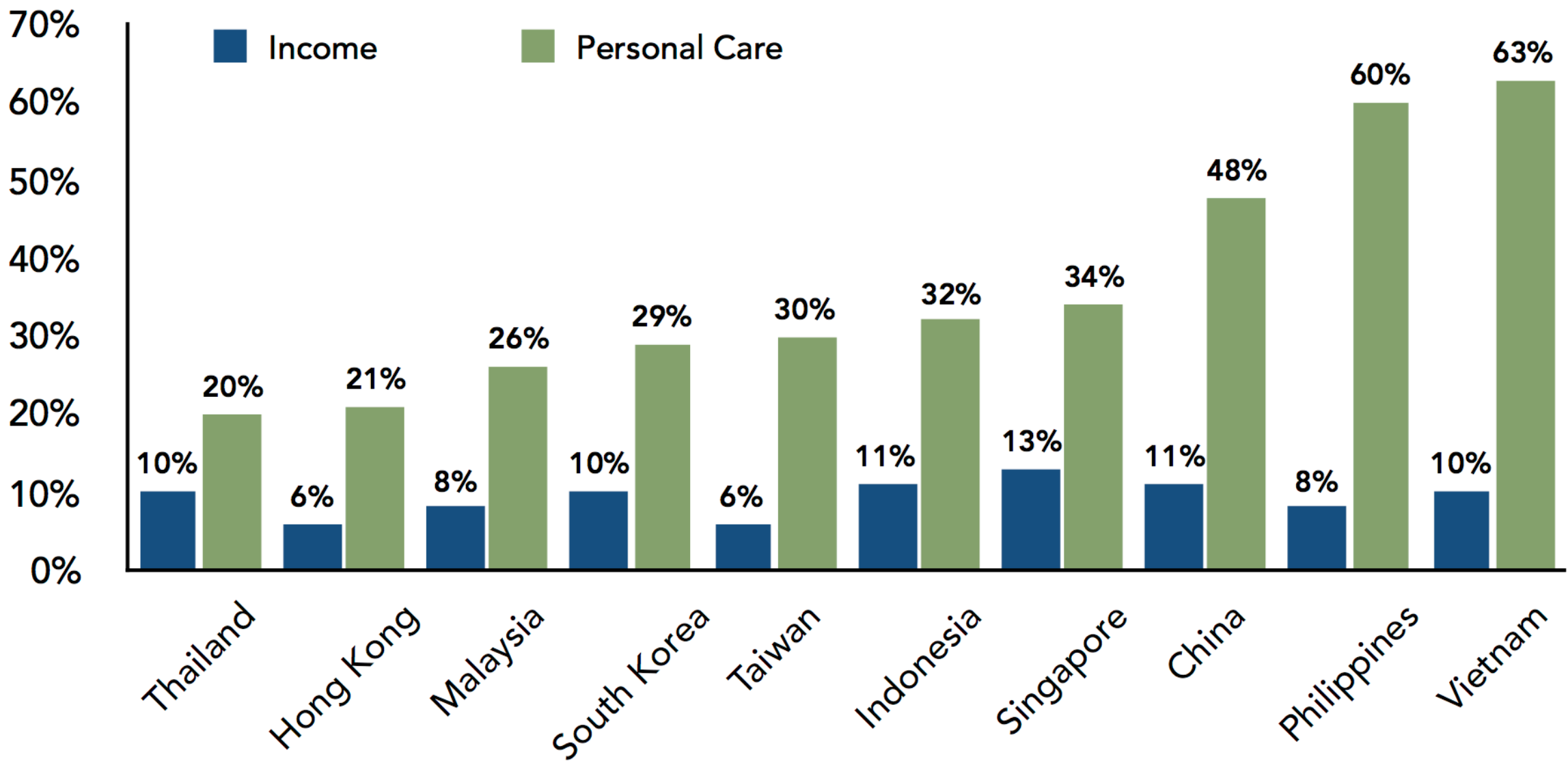


Source: East Asia Retirement Survey: Wave 2 (GAI, 2015)

ANNEX

BY OVERWHELMING MAJORITIES, EAST ASIANS REJECT THE TRADITIONAL MODEL OF FAMILY-CENTERED RETIREMENT SECURITY

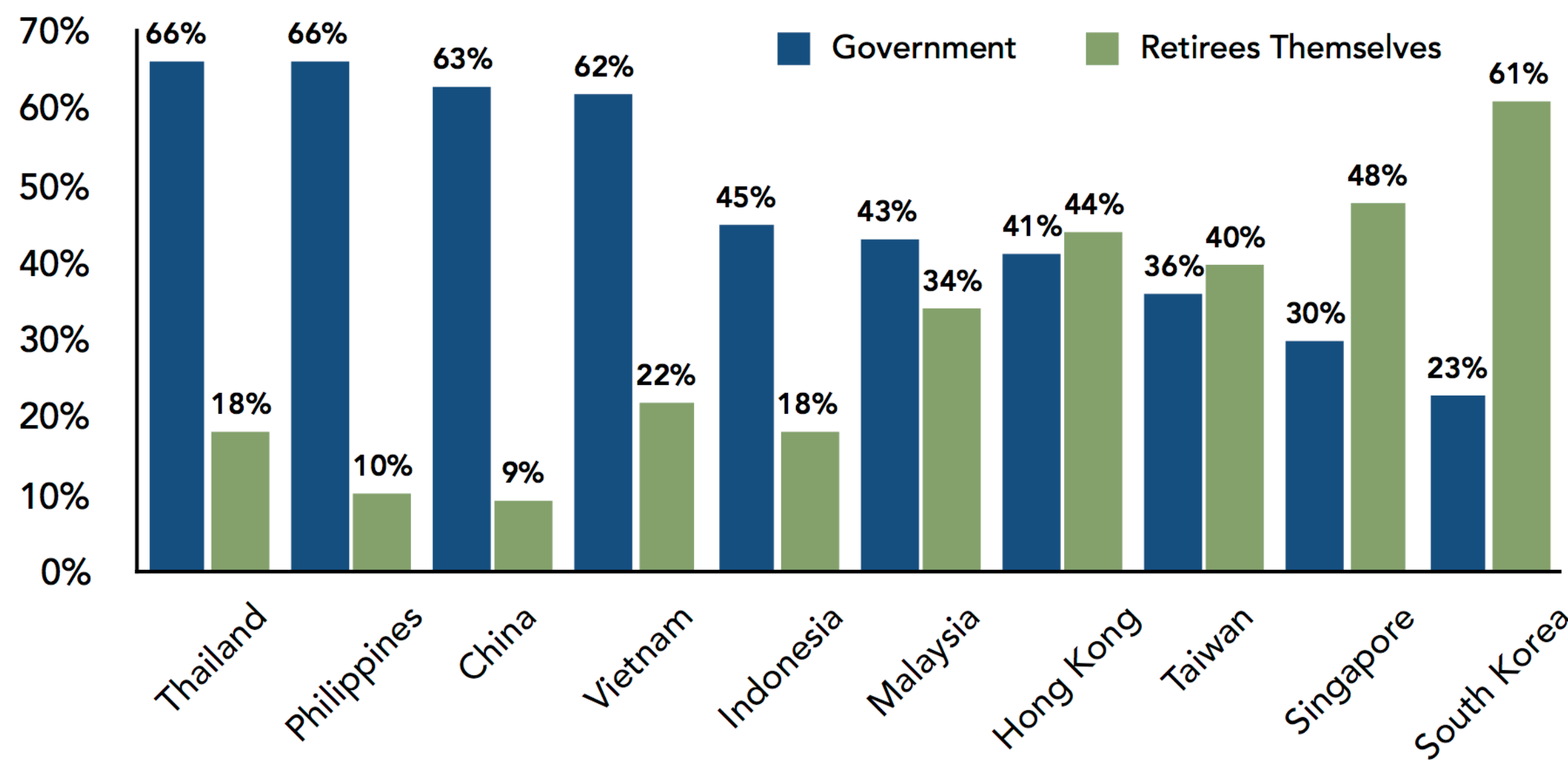
Shares of Respondents Saying "Grown Children or Other Family Members" Should be Mostly Responsible for Providing Income and Personal Care to Retired People



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

VIEWS DIFFER GREATLY ACROSS EAST ASIA ABOUT WHO SHOULD REPLACE THE FAMILY AS THE GUARANTOR OF RETIREMENT SECURITY

Share of Respondents Saying "Government" Should Be Mostly Responsible for Providing Income to Retired People versus Share Saying "Retirees Themselves, through Their Own Savings"



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