by RICHARD JACKSON
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From Challenge to Opportunity

THE FUTURE OF RETIREMENT IN Hong Kong

Global Aging Institute

eastspring investments

About the East Asia Retirement Survey

The East Asia Retirement Survey is part of the multiyear Global Aging Preparedness Project, which was launched in 2010 by the Center for Strategic and International Studies (CSIS) with the publication of *The Global Aging Preparedness Index*, a unique new tool for assessing the fiscal sustainability and income adequacy of retirement systems around the world. When project director Richard Jackson left CSIS early in 2014 to found the Global Aging Institute (GAI), the project moved with him and since then has continued under the auspices of GAI. Prudential plc has collaborated with Richard Jackson on the project since 2010 and continues to support the ongoing work on the project being carried out by GAI.

As the world's societies age, governments and businesses are trying to look ahead and anticipate the needs of tomorrow's growing elderly populations. Nowhere is this more difficult than in emerging East Asia, where rapid development is transforming traditional retirement attitudes and expectations. The role of the family in retirement security is receding, while the importance of pensions and personal savings is growing. How well are retirees in East Asia coping with the changes? How prepared are workers for their own future retirement? And what type of retirement system would people actually prefer, if given the choice?

The purpose of the East Asia Retirement Survey, now in its second wave, is to help answer these questions. The first wave of the survey, conducted in the summer of 2011, was administered to representative samples of workers and retirees in China, Hong Kong SAR, Malaysia, Singapore, South Korea, and Taiwan. The second wave, conducted in the summer of 2014, was administered to representative samples of workers and retirees in the six first-wave countries plus Indonesia, the Philippines, Thailand, and Vietnam.* While the survey finds that there are many important differences across the region, it also reveals that citizens throughout East Asia have at least two important things in common. They are anxious about their retirement prospects and they are eager to improve them.

The results of the first wave of the survey were published in *Balancing Tradition and Modernity: The Future of Retirement in East Asia* (Washington, DC: CSIS, 2012). The results of the second wave of the survey are published in *From Challenge to Opportunity: Wave 2 of the East Asia Retirement Survey,* the overall project report, as well as in a series of ten shorter country reports, of which this is one. All of the reports, together with supplemental data, are available on GAI's dedicated project website at **gap.globalaginginstitute.org.** The results of the second wave of the survey are also featured on Prudential's dedicated project website at **www.prudentialcorporation-asia.com/eastasia-retirement-2015/.**

**For convenience, the term "country" is sometimes used in this report to refer to all ten distinct territorial and economic entities where the survey was conducted. Use of the term is not meant to imply any judgment about the sovereignty or status of any of the ten entities in international law or practice.*

The Global Aging Institute does not take specific policy positions; accordingly, all views expressed herein should be understood to be solely those of the author(s).

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Findings from Wave 2 of the East Asia Retirement Survey

Hong Kong

When it comes to retirement, Hong Kong, like many East Asian societies, finds itself midway on the journey from the traditional to the modern. Although the family continues to play a central role in retirement security, attitudes and expectations are changing. Hong Kongers' views about the ideal shape of the retirement system differ, with some favoring individual responsibility for retirement income and others favoring government responsibility. What almost everyone agrees on is that traditional family-centered retirement security needs to give way to more formal market or government substitutes. As this transition unfolds, retirement has become a time of economic insecurity for many of today's retirees.

The retirement prospects for today's workers are considerably brighter. With a much larger share of today's workers expecting to receive benefits from the Mandatory Provident Fund than is the case for today's retirees, and with rates of asset income receipt also expected to rise, the relative living standard of future retirees should improve. Yet even so, two out of five workers expect to have a lot less income in retirement than they do today, a larger share than anywhere else surveyed except South Korea. One reason may be that, even though a much larger share of today's workers expect to receive benefits from the Mandatory Provident Fund, the system's low contribution rate means that the benefits will be relatively small. Hong Kong's looming age wave also complicates the challenge of ensuring future retirement security. As the elderly share of the population doubles from 22 to 41 percent over the next twenty-five years, Hong Kongers worry that it will push up fiscal and family burdens alike.

Yet at the same time, Hong Kong enjoys some enviable advantages in confronting its retirement challenge, including a market-oriented culture and a savings-based retirement system. Perhaps in

SURVEY Overview

Hong Kong

TODAY'S RETIREMENT **Realities**		
	Share of Today's Retirees Who...	
	Retired before Age 60	49
	Live with Their Grown Children [1]	63
	Depend Financially on Their Grown Children [2]	37
	Receive Income from the State Pension System [3]	55
	Receive Income from Financial Assets [4]	42
	Receive Income from a Job or Business	29
	Have Received Professional Financial Advice	11
	Have a Lot Less Income Now Than When Working	61
	Worry More About Exhausting Their Savings Than 3 Years Ago	28

TOMORROW'S RETIREMENT **Expectations**		
	Share of Today's Workers Who...	
	Expect to Retire before Age 60	19
	Expect to Live with Their Grown Children [5]	47
	Expect to Depend Financially on Their Grown Children [2]	16
	Expect Income from the State Pension System [3]	91
	Expect Income from Financial Assets [4]	77
	Expect Income from a Job or Business	68
	Have Received Professional Financial Advice	28
	Expect to Have a Lot Less Income When Retired	41
	Are Saving More for Retirement Than 3 Years Ago	40

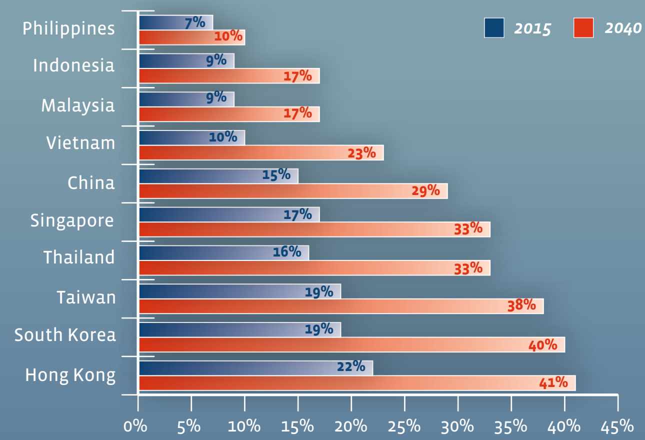
VIEWS ABOUT THE RETIREMENT **Challenge**			
	Share of Respondents Agreeing (+) and Disagreeing (−) That...	+	−
	Supporting the Growing Number of Elderly Will Be a Large Burden for...		
	Tomorrow's Workers and Taxpayers	43	20
	Tomorrow's Families	46	19
	People Can Trust Financial Services Companies to Help Them Prepare for Retirement	16	50
	Government Is Doing Enough to Help Workers Prepare for Retirement	9	58

VIEWS ABOUT RETIREMENT **Reform**		
	Share of Respondents Saying Government Should...	
	Increase Taxes to Provide a Basic Pension Benefit to Those Elderly Who Are in Financial Need	69
	Increase Worker Contributions to Government Pension Programs	68
	Raise the Retirement Age	68
	Require Workers to Save More for Their Own Retirement	90

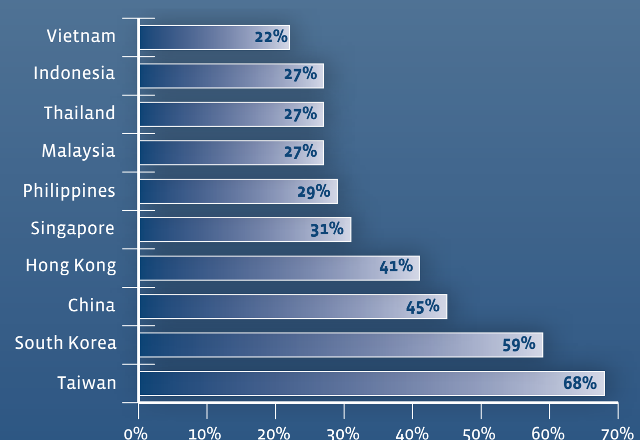
[1] Refers to elderly aged 60 and over who have grown children.
[2] "Depend" means net recipient of income from children.
[3] State pension system includes the Mandatory Provident Fund, Social Security Allowance, and civil service pensions.
[4] Financial assets include insurance and annuity products and stocks, bonds, and mutual funds, but exclude bank deposits.
[5] Refers to workers who have or expect to have children.

Notes: All data are from Wave 2 of the East Asia Retirement Survey, except for demographic data, which are from *World Population Prospects: The 2012 Revision* (UN Population Division: New York, 2013). Questions in the "Views about the Retirement Challenge" section used a five-point scale, with 1 being strongly disagree and 5 being strongly agree. "Agree" = 4 + 5 and "Disagree" = 1 + 2.

Share of the Population Aged 60 & Over



"Both parents and children are generally happier when they are more independent and self-sufficient."



"Who, ideally, should be mostly responsible for providing income to retired people?"

% Response by Country	Government	Retirees Themselves	Grown Children	Former Employers
China	63	9	11	16
Hong Kong	41	44	6	8
Indonesia	45	18	11	25
Malaysia	43	34	8	10
Philippines	66	10	8	17
Singapore	30	48	13	2
South Korea	23	61	10	2
Taiwan	36	40	6	16
Thailand	66	18	10	4
Vietnam	62	22	10	5

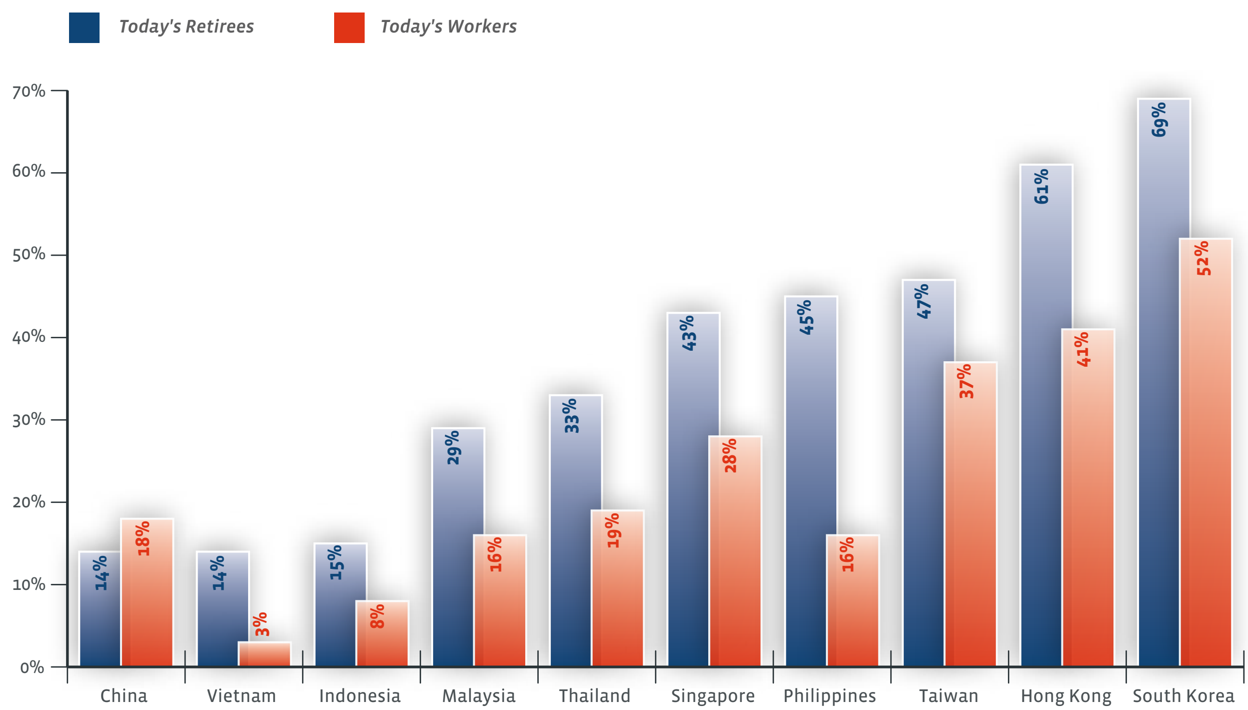
part because of these advantages, Hong Kongers tend to be optimistic about the future. Optimism, however, is not the same thing as complacency. Hong Kongers are eager to do more to prepare for retirement—and in particular, they want government to do more to help them. Large majorities would support reforms that strengthen the safety net for those elderly who are in financial need, raise the retirement age, and encourage or require workers to save more for their own retirement.

Today's Retirement Realities

The economic circumstances of the current generation of retirees in Hong Kong can only be described as precarious. To begin with, rates of pension receipt are low. Just 43 percent of today's retirees report receiving income from the Mandatory Provident Fund or a civil service pension. Even including the flat-rate Social Security Allowance, the share of today's retirees with a state pension benefit only rises to 55 percent. 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.

Overall, the median household income of the elderly is just 57 percent of the median income for all households, less than anywhere else surveyed except South Korea and Malaysia. Sixty-one percent of today's retirees report that they have "a lot less income" now than when they were working, more than anywhere else except South Korea. Not surprisingly, today's retirees rely heavily on their grown children. Sixty-three percent report living with them and 37 percent report being financially dependent on them. Twenty-two percent of today's retirees, more than anywhere else surveyed, say that they "could not get by at all" without the financial support of their grown children.

Not surprisingly, many of today's retirees worry about exhausting their savings, becoming a burden



Retirement insecurity is widespread in Hong Kong.

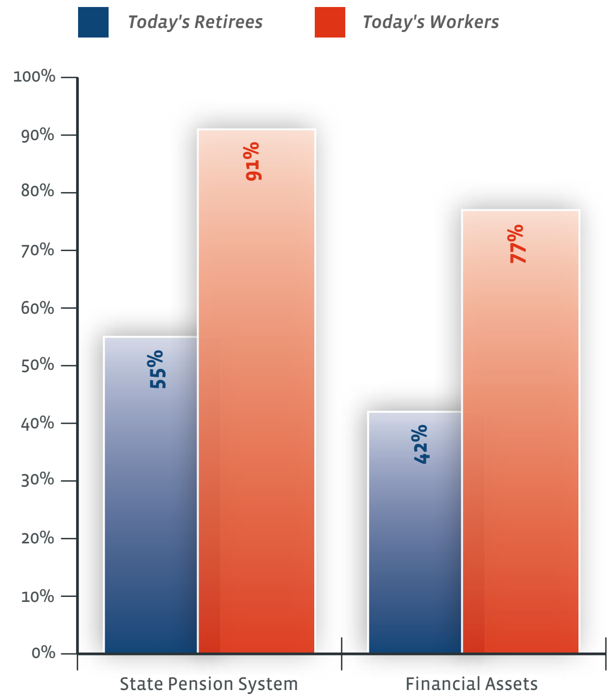
Share of Today's Retirees Who Have "a Lot Less Income" Now Than When Working and Share of Today's Workers Expecting to Have "a Lot Less Income" When Retired

on their children, being poor and in need of money, and being in poor health and having no one to care for them. What is more surprising is that the share of retirees who worry about each of these things—between 50 and 60 percent—is actually smaller than anywhere else except mainland China. Part of the explanation may simply lie in the innate optimism of the Hong Kong people. Part may also be that the extended family in Hong Kong, at least for now, is still a reliable backstop against poverty in old age. It may also be significant that the Hong Konger elderly, although economically marginalized, are not socially marginalized. Ninety-five percent of Hong Kongers believe that the elderly "make important contributions to society," while just 2 percent believe that they are "mostly a burden," fewer than anywhere else surveyed.

Tomorrow's Retirement Expectations

Retirement security will improve in Hong Kong as the Mandatory Provident Fund, which began operations in 2000, begins to mature and more retirees qualify for benefits. While just 55 percent of today's retirees report receiving a state pension benefit, 91 percent of today's workers expect to receive one when they retire, a larger increase in pension receipt than anywhere else surveyed. A much larger share of today's workers also expect to receive income from financial assets when they retire than is the case for today's retirees. Indeed, at 77 percent the share of today's workers who expect to receive income from insurance or annuity products and/or stocks, bonds, or mutual funds is larger than anywhere else surveyed, the only close runners-up being Singapore and Taiwan.

Yet despite these positive trends, today's workers actually worry more than today's retirees do about exhausting their savings, becoming a burden on their children, being poor and in need of money, and being in poor health and having no one to care for them. Forty-one percent expect to have "a lot less income" in retirement than they do today—a share that may be significantly smaller than the equivalent share for today's retirees in Hong Kong, but that is larger than the equivalent share for today's workers everywhere else except South Korea. The surprisingly low income expectations of today's workers may be due in part to concerns about the modest size of Mandatory Provident Fund benefits and in part to concerns about the weakening of traditional family support networks. Whatever the explanation, these low expectations appear to be encouraging a welcome behavioral shift. Forty percent of today's workers report that they are saving more for retirement now than they were three years ago, a share only exceeded among workers in mainland China.

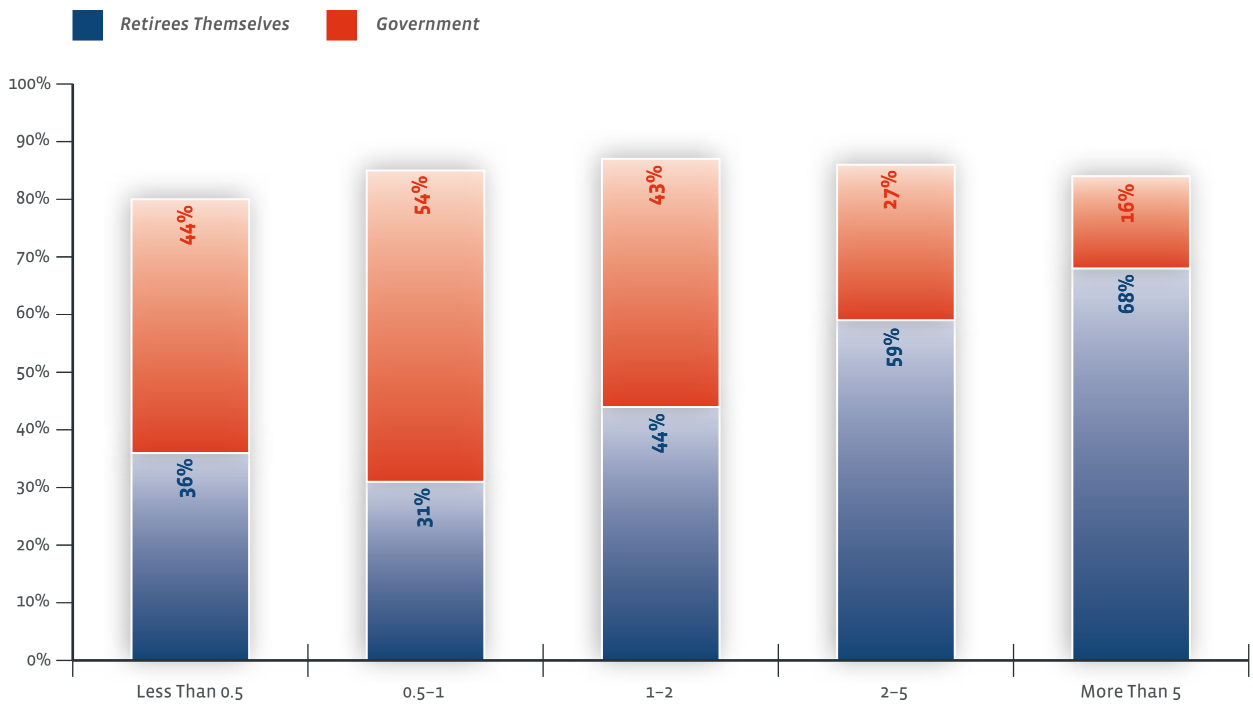


Rates of pension and asset income receipt will rise when today's workers retire.

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

The Changing Role of the Family

Despite the high level of dependence of today's retirees on the extended family, more individualistic "western values" are beginning to take root. Two-fifths of Hong Kongers agree that "both parents and children are generally happier when they are independent and self-sufficient," more than anywhere else except China, South Korea, and Taiwan. When asked more directly, "who, ideally, should be mostly responsible for providing income to retired people," just 6 percent of respondents answered "grown children or other family members." While 63 percent of today's retirees report living with their grown children, just 47 percent of today's workers expect to do so when they are retired. As for income support, while 37 percent of today's retirees report being financially dependent on their grown children, just 16 percent of today's workers expect to be when they are retired. Even attitudes toward the role of the family in caring for the frail elderly are changing. A majority of Hong Kongers believe that government, rather than grown children or other family members, should be mostly responsible for providing personal care to retired people when they need help with everyday living or are sick or disabled. Meanwhile, just 48 percent of those retirees who identify themselves as being in poor health or disabled report that they are actually cared for by their grown children or their children's spouses, fewer than anywhere else surveyed.



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

Hong Kongers are divided about who should be responsible for retirement income.

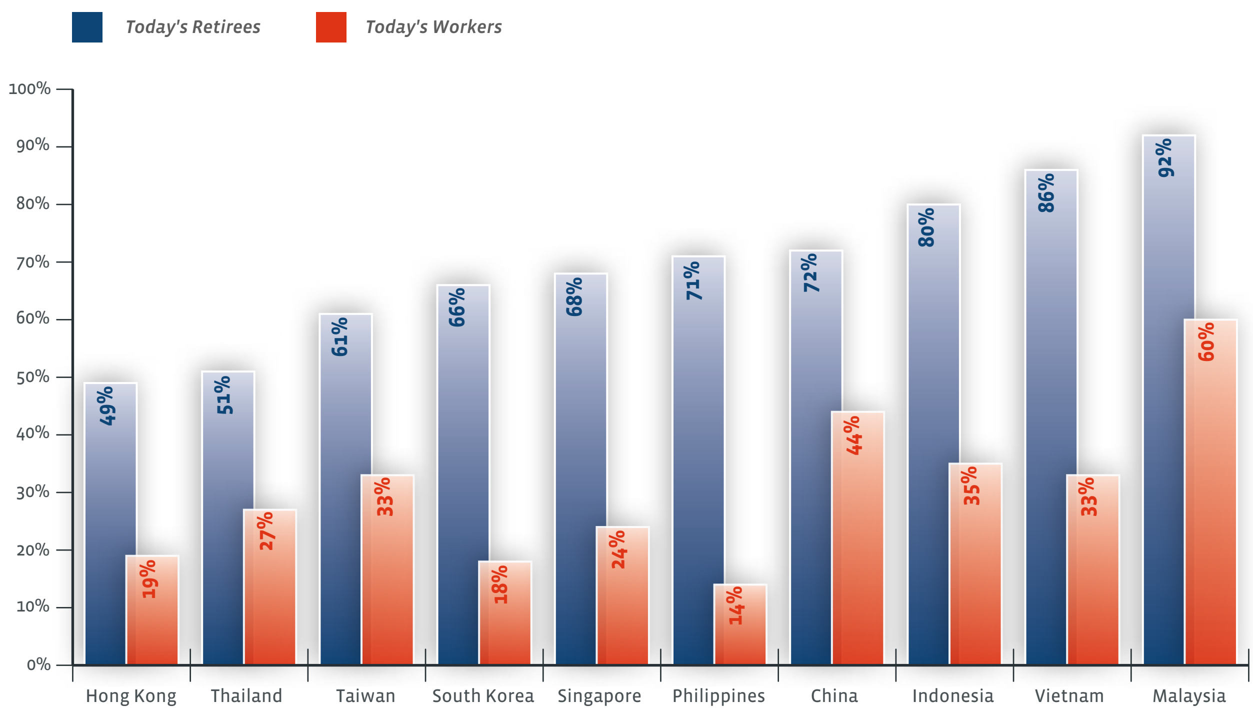
Share of Hong Konger Respondents Saying "Government" Should Be Mostly Responsible for Providing Retirement Income versus Share Saying "Retirees Themselves, through Their Own Savings," by Income Bracket*

Responsibility for Retirement Provision

If not the family, then who, ideally, should be mostly responsible for providing income to retired people? Hong Kongers are divided about where responsibility should lie. A slight plurality of respondents favor individual, savings-based responsibility for retirement income (44 percent), although the share favoring government responsibility (41 percent) is nearly as large. Moreover, divisions in views about the ideal shape of the retirement system often mirror socioeconomic divisions, with better-educated and higher-earning respondents more likely to support individual responsibility and less-educated and lower-earning respondents more likely to support government responsibility. Respondents earning more than twice the median income are nearly twice as likely to support individual responsibility as respondents earning less than half of the median income.

Attitudes toward Financial Markets and Services

Hong Kongers are a highly market-oriented people, which should stand them in good stead as they confront their retirement challenge. Not only do a majority of today's workers (77 percent) expect to receive income from financial assets when they retire, but a majority (63 percent) also report having actually purchased those assets. At 56 percent, the share of today's workers who have purchased insurance or annuity products is larger than anywhere else except Singapore. At 40 percent, the



Hong Kong's relatively late retirement ages will help it confront the retirement challenge.

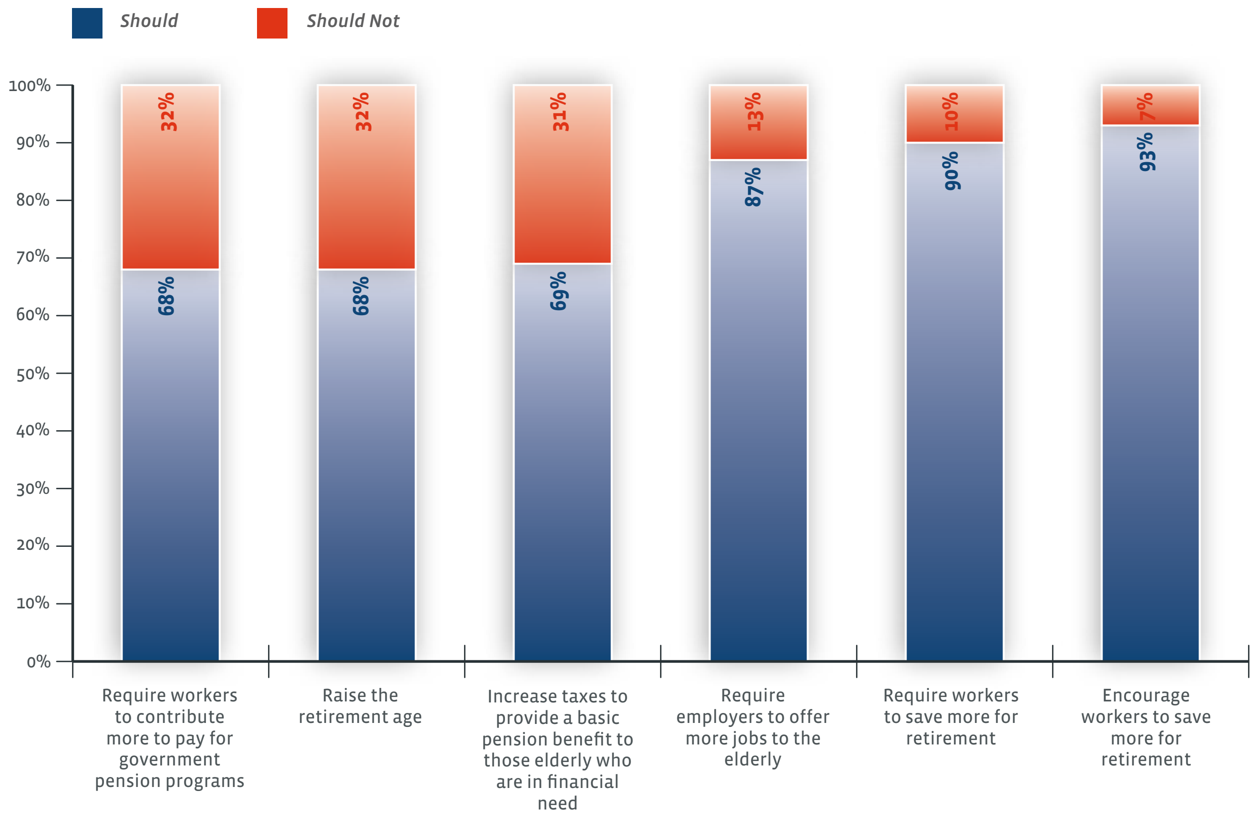
Share of Today's Retirees Who Retired before Age 60 and Share of Today's Workers Expecting to Retire before Age 60

share who have purchased stocks, bonds, or mutual funds is larger than anywhere else at all. Indeed, it eclipses the next runners-up, Taiwan at 28 percent and Singapore at 23 percent.

Yet at the same time, Hong Kongers 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 except South Korea and Taiwan, those who agreed outnumbered those who disagreed, and usually by a wide margin. This low level of trust is also apparent 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 anywhere else except China, Indonesia, the Philippines, and Vietnam. Although this negative bias is broadly shared, it is less marked among younger adults, who are the most likely to engage with the financial services industry. This suggests that the balance of opinion is likely to become more positive over time.

Attitudes toward Work and Retirement

Along with their high degree of market-orientation, Hong Kongers' attitudes toward work and retirement should also stand them in good stead as they confront their retirement challenge. A large majority of Hong Kongers favor a flexible retirement paradigm, with 72 percent agreeing that "people should be free to start and stop working whenever they are able and willing." Fewer



What Hong Kongers Think about Retirement Reform

Share of Hong Konger Respondents Saying That Government Should or Should Not…

than 10 percent believe that "people should retire at a fixed age and not work again," compared with 36 percent in mainland China. Just 49 percent of today's retirees report that they retired before age 60, fewer than anywhere else surveyed. Among today's workers, just 19 percent expect to retire that early, fewer than anywhere else except the Philippines and South Korea.

From Challenge to Opportunity

Hong Kongers tend to be optimistic about the future. By nearly two-to-one, they agree that "each new generation of workers will have a higher living standard than the previous one." By more than two–to-one, they also agree that "each new generation of retirees will have a more secure retirement than the previous one." Since retirement planning is a long-term proposition, one might suppose that the possible change in Hong Kong's "one country, two systems" status after 2047 would be a major cause for concern. However, this does not appear to be the case. Even among young adults in their twenties and thirties, who will be the most directly affected, less than one-third worry that the possible change "will complicate planning for retirement or old age."

Yet if Hong Kongers are optimistic, they are hardly complacent. When asked if supporting the growing number of elderly will be "a large burden" for tomorrow's workers and families, twice as many agreed as disagreed. Moreover, when asked whether "government is doing enough to help today's workers prepare for retirement," those who disagreed outnumbered those who agreed by six-to-one, a far wider margin than anywhere else surveyed except South Korea and Taiwan, where the margins were similarly large. Majorities of Hong Kongers 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). Meanwhile, overwhelming majorities would support reforms that encourage (93 percent) or require (90 percent) workers to save more for their own retirement.

Preparing for Hong Kong's graying future will be challenging. The government will need to balance the public's competing views about the appropriate role of the individual and the state in retirement provision, while the financial services industry will need to better educate the public about its indispensable role in helping people plan for retirement. Yet given Hong Kongers' high degree of market-orientation, flexible attitudes toward work and retirement, and readiness to embrace constructive reforms, there is indeed ample room for optimism about the outcome.

Technical Note

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 interviews were conducted by telephone, except in the Philippines, Thailand, Indonesia, and Vietnam, where they were conducted in person. The survey universe consisted of household "main earners" aged 20 or older, including both current main earners and retired main earners. GAI weighted the raw survey data by age, gender, and educational attainment using census data and other standard national and international statistical sources. The survey analysis was carried out using SPSS statistical software.

The sample size for seven of the ten countries ranged from 990 to 1023. In China, the sample size was 1512, and in Hong Kong and Singapore it was 749 and 750, respectively. The margin of error for the survey at a 95 percent confidence interval ranged from a low of plus or minus 2.5 percentage points in China to a high of plus or minus 3.6 percentage points in Hong Kong and Singapore.

Sample Size and Margin of Error

	Sample Size	Margin of Error (+ or –)*
China	1512	2.5
Hong Kong	749	3.6
Indonesia	1023	3.1
Malaysia	990	3.1
Philippines	997	3.1
Singapore	750	3.6
South Korea	997	3.1
Taiwan	998	3.1
Thailand	1008	3.1
Vietnam	995	3.1

* Margin of error at a 95 percent confidence interval.

Glossary

Elderly: The elderly in this report are defined as adults aged 60 and over.

Financial Assets: Financial assets in this report generally refer to insurance and annuity products and stocks, bonds, and mutual funds. Unless otherwise noted, they exclude bank deposits.

Funded Pension Systems: A funded pension system is a system in which the contributions of current workers are saved and invested and benefits are paid out of the accumulated assets.

Household Income: Household income refers to the income of all household members. For retirees living in multigenerational households, it thus includes the income of their grown children.

Market-Oriented: Market-oriented refers to degree of engagement in financial markets. A market-oriented country or society is one in which a large and/or rapidly growing share of the population invests in financial markets and owns financial assets.

Means-Tested Programs: Means-tested programs are social assistance programs in which eligibility for benefits is limited to persons with income or assets beneath certain thresholds.

Pay-As-You-Go Pension Systems: A pay-as-you-go pension system is a system in which the contributions of current workers are directly used to pay for the benefits of current retirees.

Replacement Rates: Replacement rate refers to the share of a worker's income that pension benefits replace. If benefits are paid as a lump sum rather than in monthly installments, it refers to the share of income they would replace if annuitized.

Retirees & Workers: The division of respondents into "today's retirees" and "today's workers" is based on self-identification by the respondents themselves. Respondents were told that retirement means "no longer working or working less than when you were younger and having no plans to work full-time again." They were then asked whether they are "currently retired."

State Pension System: State pension system in this report refers to all mandatory pension systems or retirement savings systems established by the government, provided that the systems are contributory and are not means-tested. In Hong Kong, the state pension system includes the Mandatory Provident Fund, the Social Security Allowance, and civil service pensions.

About the Authors

Richard Jackson is the founder and president of the Global Aging Institute (GAI), a nonprofit research and educational organization dedicated to improving understanding of the economic, social, and geopolitical challenges created by demographic change, and especially population aging, in the United States and around the world. He is also a senior associate at the Center for Strategic and International Studies (CSIS) and a senior advisor to the Concord Coalition. Richard is the author or co-author of numerous policy studies, including *Lessons from Abroad for the U.S. Entitlement Debate* (2014); *The Global Aging Preparedness Index, Second Edition* (2013); *Balancing Tradition and Modernity: The Future of Retirement in East Asia* (2012); *Global Aging and the Future of Emerging Markets* (2011); and *The Graying of the Great Powers: Demography and Geopolitics in the 21st Century* (2008). Richard regularly speaks on demographic issues 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.

Tobias Peter is a research associate at the Global Aging Institute. Prior to beginning his graduate studies, he worked with Richard Jackson on global aging issues at the Center for Strategic and International Studies, where he was successively an intern, research assistant, and program coordinator. Tobias is the co-author of several policy studies, including *U.S. Development Policy in an Aging World: New Challenges and New Priorities for a New Demographic Era* (2013); *The Global Aging Preparedness Index, Second Edition* (2013); and *Balancing Tradition and Modernity: The Future of Retirement in East Asia* (2012). He holds a B.A. in history and applied economics from the College of St. Scholastica and a Master of Public Policy degree from Harvard's John F. Kennedy School of Government.

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.

GAI 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 fifteen 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 and immediate past president of the American Academy of Actuaries. To learn more about the Global Aging Institute, visit www.GlobalAgingInstitute.org.

About Eastspring Investments

Eastspring Investments is a leading asset manager in Asia that manages US $134 billion (as at 30 June 2015) of assets on behalf of institutional and retail clients. Operating in Asia since 1994, Eastspring Investments is the Asian asset management business of Prudential plc, one of the world's largest financial services companies.

We have one of the widest footprints in Asia, with on-the-ground teams of 2,500 employees and more than 250 investment professionals located in 10 major Asian markets as well as offices in the US, Europe, and the United Arab Emirates. Our unparalleled knowledge and local insights allow us to deliver unique and tailored opportunities to our clients. We provide investment solutions across a broad range of asset classes including: equities, fixed income, global asset allocation, mezzanine debt, private equity, and infrastructure.

Eastspring Investments was Asia's largest retail fund manager in 2014 according to an annual survey by Asia Asset Management, and was named the Best Asset Management House in Asia in Asia Asset Management's Best of the Best Awards in 2014.

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