

# PREMIER SPONSOR ARTICLE SERIES



## How financially prepared are Hong Kongers for retirements?

We live in an unpredictable world. No one could have predicted the global coronavirus pandemic and its deep impact to our societies, economies and our individual financial situations. One financial area of uncertainty for many Hong Kongers is retirement readiness. Whether it's younger workers just starting to save for retirement or older workers nearing retirement, a critical question is "Am I financially prepared for my retirement?" Fidelity's Global Retirement Survey and Retirement Readiness Score may help provide a roadmap for workers across a range of ages and incomes.

Fidelity launched a comprehensive online survey last year across six developed regions, including the United Kingdom, Germany, Hong Kong, Japan, Canada and the United States. The survey revealed that Hong Kong workers are generally not "on target" to sufficiently cover their basic expenses after they retire. If no changes are made, they are unlikely to be able to maintain their pre-retirement lifestyle.

### What is the Fidelity Global Retirement Survey?

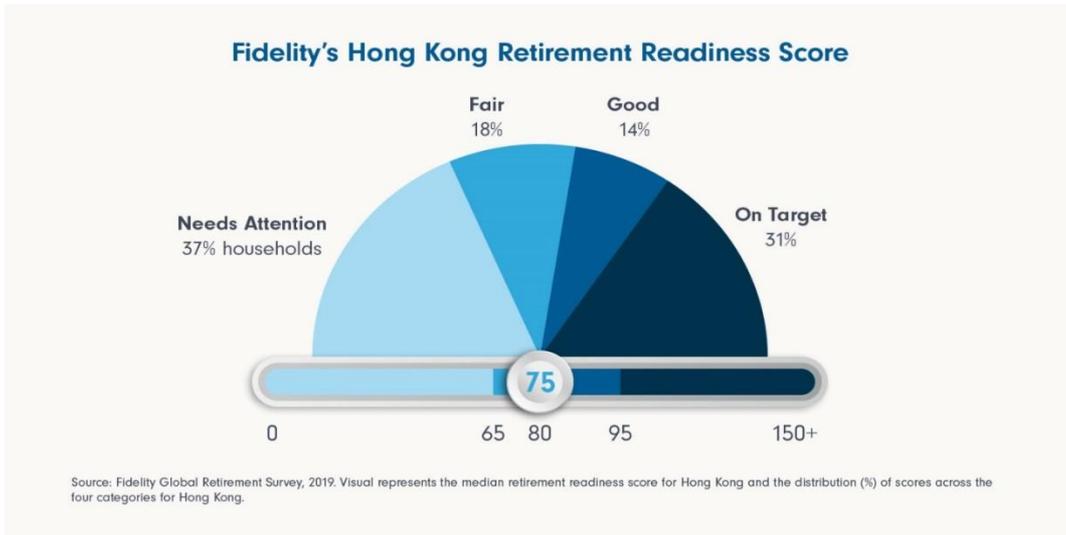
Based on Fidelity's retirement survey data and methodology, a Retirement Readiness Score was calculated for each surveyed region. The analysis assigned each region a score ranging from 0 to 150+. The score indicates if people are on track to maintain their pre-retirement lifestyle in retirement. The higher the score, the better prepared they are to cover their estimated expenses in retirement.

Needs Attention Score = less than 65	Fair Score = 65-80	Good Score = 81-95	On Target Score = greater than 95
Not on target, will need significant adjustments to their planned lifestyle in retirement.	Not on target, will need modest adjustments to their planned lifestyle in retirement.	On target to cover basic expenses in retirement but not discretionary expenses such as travel and retirement.	On target to cover more than 95 percent of total estimated expenses in retirement.

Source: Fidelity

### Retirement Readiness varies widely in Hong Kong

The median Retirement Readiness Score for Hong Kong is 75, which is considered "fair". This indicates that Hong Kong workers can cover only 75% of estimated required retirement expenses. More than half of respondents will need to adjust their planned lifestyle in retirement and only 31% of respondents' retirement plans are considered as "on target". In addition, 23% of respondents claimed that they did not know how much they should save for retirement.



It is worth noting that there is a significant difference in median retirement scores across age groups. The scores range from 53 for older workers with a monthly household income between HK\$15,000 and HK\$30,000, to 89 for younger workers with an income between HK\$30,000 and HK\$50,000.

### Hong Kong Median Retirement Readiness Scores by income and generation

	All Incomes	HK\$15-30k	HK\$30-50k	HK\$50k+
All Ages	75	70	80	76
Younger Workers Aged 20-38	87	88	89	81
Middle-Aged Workers Aged 39-54	76	70	82	76
Older Workers Aged ≥ 55	63	53	74	72

Source: Fidelity Global Retirement Survey 2019. All Retirement Readiness Scores are median scores.

The median score for older workers is 63 and some low-income workers in this group score the lowest in the entire survey. A rather late start to retirement planning, as well as an excessively conservative asset allocation, may have contributed to the lower scores. This shows that the older generation faces the greatest challenge in achieving retirement readiness and they may need to work longer and retire later.

In contrast, younger workers are in a stronger position with a median score of 87 across all income groups. The savings rate and the accumulated savings of this group are relatively high. The savings rate is about 19% and the median savings for Post 80s and Post 90s are HK\$890,000 and HK\$409,000, respectively. This group benefits from a longer investment time span which enables potential long-term investment growth and increase retirement savings. Though middle-aged workers score higher with a median of 76, their retirement preparedness is still not on track. Fortunately, this group still has at least a decade to enhance their readiness before reaching the legal retirement age of 65.

## Key pre-retirement steps to improve retirement readiness

Even though Hong Kongers may not be fully prepared for retirement, Fidelity suggests three key steps to help workers improve their readiness.

- Raise savings** – The study revealed that Hong Kongers’ median savings rate is 19% of their pre-tax annual income (excluding MPF contributions<sup>1</sup>). Fidelity’s [Retirement Savings Guidelines](#) suggest that, in general, Hong Kong workers should save 20%<sup>2</sup> of their annual income in order to generate 48% of their personal income replacement after retirement. Hence, Hong Kongers should increase their annual savings by at least 1% to increase their probability of reaching their retirement goal.
- Review asset mix** – It is important for Hong Kong workers to have an appropriate asset allocation strategy aligned with their life stage. For example, 48% of younger workers have 25% or less of their holdings allocated to equities, while 22% of older workers invest at least 75% of their holdings in equities. This indicates that their investment strategy is either too aggressive or too conservative, which will impact retirement readiness. Following an age-appropriate strategy with well-diversified asset allocation can help build a portfolio with long-term growth potential, thus boosting the retirement readiness score.

Apart from private savings channels, Hong Kong workers can also choose to increase their MPF with the scheme of Tax-Deductible Voluntary Contributions (TVC). Fidelity’s research reveals that 40% of respondents are motivated to increase their retirement savings due to tax incentives like TVC. Fidelity launched the TVC scheme in April 2019, with the aim of encouraging Hong Kongers to start savings early. What’s more, the online application is streamlined and can be completed in 15 minutes via the mobile app — to learn more about it, [please visit](#).

**KP Luk, Head of Hong Kong, Fidelity International**, comments: “We observed that most younger workers are quite conservative in their asset allocation, indeed they are privileged as time is on their side. If they conduct a disciplined investing strategy over the years, their investment may benefit from the dollar cost-averaging effect, especially during periods of market volatility, and it may maximise investment growth potentially leading to more retirement savings.”

- Revisit retirement plan** – Working longer gives people more time to accumulate savings. According to the survey, the median target retirement age of Hong Kong workers is 63. However, they should consider delaying their retirement to age 65.



Source: Fidelity Global Retirement Survey 2019. All Retirement Readiness Scores are median scores.

Taking the three steps above – raising savings, review asset mix, and revisit retirement plan, the median Hong Kong Retirement Readiness Score could potentially increase to 119, categorised as “on target” to cover estimated retirement expenses. Not all these steps are possible or necessary for all workers. However, when circumstances are appropriate, those who take as many of the steps as early as possible before retiring may benefit greatly.

If you would like to learn more about the Fidelity Global Retirement Survey, [please visit](#).

### Endnotes

<sup>1</sup> Based on an assumed 5% contribution each from employee and employer, for a total of 10% contribution.

<sup>2</sup> Fidelity Retirement Savings Guidelines is based on four key metrics - savings milestones, savings rate, income replacement rate and probable sustainable withdrawal rate. Fidelity Retirement Savings Guidelines suggest that people in Hong Kong should save 12 times their annual income by the age of 65 and save at least 20% of pre-tax income in order to maintain their current lifestyle in retirement. The Fidelity Retirement Savings Guidelines are for reference only and certain assumptions are applied.

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### About HKRSA

The Hong Kong Retirement Schemes Association (HKRSA) was established in 1996 to promote the interests and best practices of retirement schemes in Hong Kong including provident and pooled retirement funds. The HKRSA is a not-for-profit, non-political association, which represents retirement schemes and their members, providing a forum for discussion of issues of current and topical interest.

### About Fidelity International

Fidelity International offers investment solutions and retirement expertise to more than 2.5 million customers globally. As a privately-held, purpose-driven company with a 50-year heritage, we think generationally and invest for the long term. Operating in more than 25 locations and with \$565.7 billion in total assets, our clients range from central banks, sovereign wealth funds, large corporates etc. Data as at 30 June 2020.

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