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

The Greater Bay Area

A destination for Hong Kong retirees

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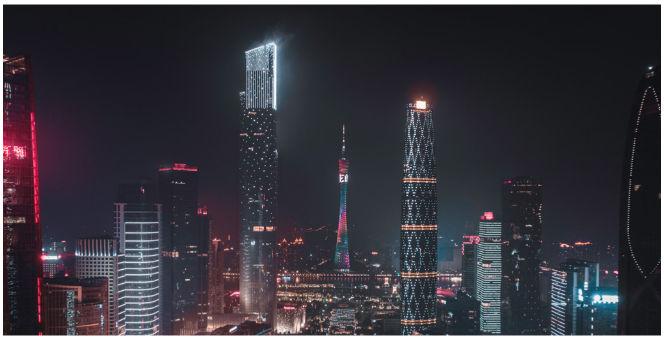
Background and objectives

"In our research paper published in 2021, HKRSA made a recommendation to leverage the combined potential of the 11 cities in the GBA to create a win-win situation for retirees in Hong Kong and the GBA. Based on this recommendation, HKRSA has conducted this follow up research in 2022 on GBA as a destination for Hong Kong retirees. You will find many significant insights from the experts that were part of the research taskforce in the paper. It also identifies some challenges that need to be addressed in order for the GBA retirement dream to become more accessible for Hongkongers. This research is another manifestation of HKRSA's mission to lead and promote sustainable and better retirement outcomes for Hong Kong people."

Calvin Chiu,
Chairman of Executive Committee, HKRSA



It is just five years since the term 'Greater Bay Area' was first coined[1], but in that time it has become integral to the strategies of all businesses in the region. With a population of 86 million and a combined GDP of US$1.7tr, the 9+2 cities of the GBA represent an unmissable opportunity. As the region integrates more closely, allowing greater mobility of people and capital, the GBA will be an increasingly important consideration when individuals are planning their working lives and subsequent retirement.

The GBA Research Taskforce of the Hong Kong Retirement Schemes Association has prepared this paper in order to outline the role that the Greater Bay Area can play in the retirement plans of Hong Kong citizens and to explore how the GBA can grow in importance as a retirement destination. At the same time, we identify the challenges that need to be addressed in order for this to become an increasingly attractive option for a growing number of retirees. These include the differences that exist in legal and regulatory systems, taxation and financial markets, as well as retirees' day-to-day needs.

As outlined in a recent paper from PwC[2], the notion of 'Living Circles' is central to the GBA vision. This implies a more seamless integration between the two SARs and the nine Guangdong cities. With the 9+2 cities all reachable within an hour's travel, the GBA should become more fluid. There will be more flexibility between where we work, where we live and where we spend our leisure time. This will have a significant impact on how people foresee their lives in their retirement.

[1] *https://www.info.gov.hk/gia/general/201707/01/P2017070100409.htm#:~:text=The%20Framework%20Agreement%20provides%20that,development%20of%20the%20Guangdong%2DHong*
[2] *https://www.pwccn.com/en/industries/financial-services/publications/gba-takes-shape-feb2022.html*

Physical development is helping to accelerate this vision. Qianhai has grown rapidly since development plans were first unveiled in 2013. The co-operation zone in Hengqin Island will lead to much closer integration between Macao and Zhuhai. Hong Kong's plans for a Northern Metropolis of up to 1 million homes will fundamentally shift the centre of gravity in the GBA.

But physical integration will need to be matched by greater regulatory equivalence, so that services can be provided and human capital can be deployed more homogenously across the GBA. A recent example of this is the GBA lawyer qualification programme, which enables Hong Kong lawyers to practice PRC law in specific areas. Similar schemes will be needed in many other fields. Medicine is one important example – continuity in provision of medical services will reassure people working in one part of the GBA and planning to retire in another.

It will also need to include providers of financial services to pre- and post-retirees in Hong Kong and the rest of the GBA. Harmonisation within the industry will be critical to realising the Living Circle vision. In order for it to be a compelling retirement option there will need to be liberalisation of capital flows for qualified residents in the GBA, including special allowances so that pension pots and MPF entitlements can be moved seamlessly. We will explore these issues in more detail in the rest of this paper.

Summary of key recommendations

As the GBA initiative grows in importance, greater portability of social security benefits will be needed;

Technical, safety and hygiene standards for elderly care and accommodation in the GBA should be formulated;

MPF providers should ensure employers and employees are informed about GBA retirement options;

Tax incentives to encourage pre-retirees to make voluntary contributions to their MPF schemes should be increased;

More seamless cross-border MPF contribution / withdrawal arrangements should be put in place;

Concessions should be granted so that Hong Kong retirees in the GBA can keep their non-resident taxpayer status beyond 183 days per year.

The GBA at a glance

Key economic and demographic data

	Hong Kong	Macao	Shenzhen	Guangzhou	Foshan	Dongguan
Area (km^2)	1,110	33	1,997	7,434	3,798	2,460
Population (000s)	7,470	680	17,560	18,680	9,500	10,470
GDP (RMB bn.)	23,906	1,678	27,670	25,019	10,817	9,650
GDP per capita (RMB)	319,522	246,334	158,578	133,961	113,869	92,198

	Huizhou	Zhuhai	Jiangmen	Zhongshan	Zhaoqing
Area (km^2)	11,347	1,736	9,507	1,784	14,891
Population (000s)	6,040	2,440	4,800	4,220	4,110
GDP (RMB bn.)	4,222	3,482	3,201	3,151	2,311
GDP per capita (RMB)	69,864	142,728	66,172	71,333	56,193

Source: www.censtatd.gov.hk

Research from the Hong Kong SAR Census and Statistics Department shows that interest in moving to the Mainland cities of the GBA is slightly more pronounced among Hong Kong residents who are retired or otherwise economically inactive. Shenzhen and Guangzhou are the preferred destinations.

The GBA at a glance

Persons aged 15+ who are very/quite interested in living, retiring, working, studying or operating a business in the nine Mainland cities of the GBA.

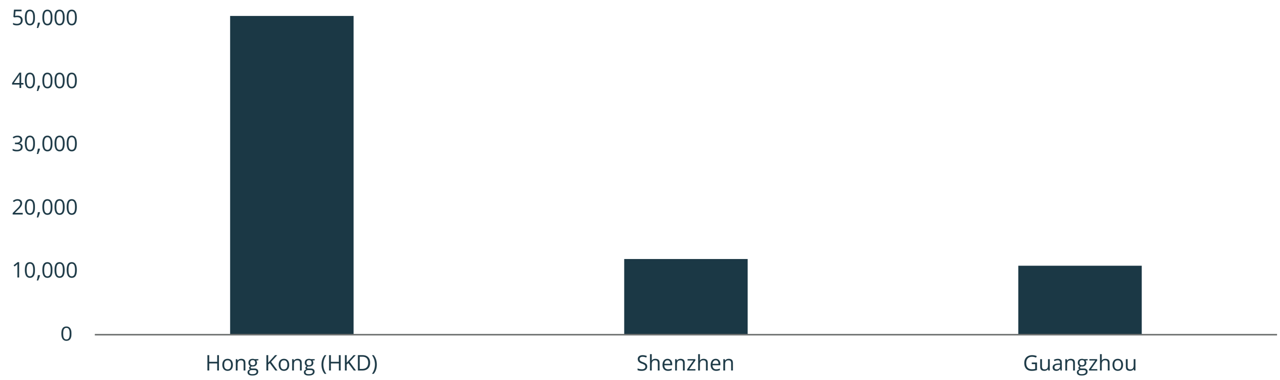
Economic status	No. of persons ('000)	% of total	% interested
Economically active	180.1	67.7	36.9
Economically inactive	86.1	32.3	40.9
Students	14.2	5.3	21.2
Home-makers	34.3	12.9	44.0
Retired	35.4	13.3	57.9
Total	**266.2**	**100.0**	**38.1**

Source: Hong Kong SAR Census and Statistics Department

Intended GBA city	No. of persons ('000)	%
Shenzhen	49.7	22.6
Guangzhou	40.2	18.2
Zhongshan	30.7	13.9
Zhuhai	28.2	12.8
Dongguan	20.0	9.1
Huizhou	14.6	6.6
Foshan	14.1	6.4
Jiangmen	12.0	5.5
Zhaoqing	2.8	1.3
Undecided / no answer	42.3	19.2
Total	**220.3**	

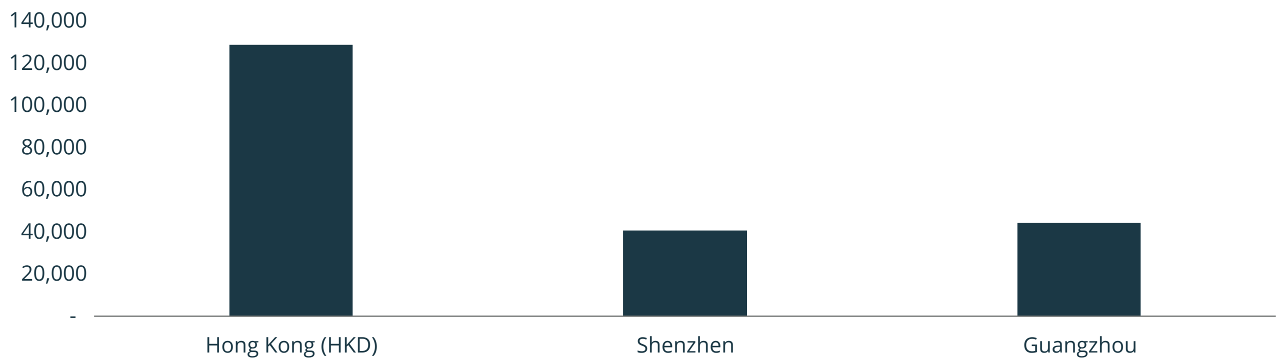
The most obvious **pull factor** for these retirees is the lower cost of living in Guangdong. Inflation, which has been at negligible levels for the last decade, is also making a comeback.

Average per capita housing expenditure (2020)



NB: includes utility costs, etc.

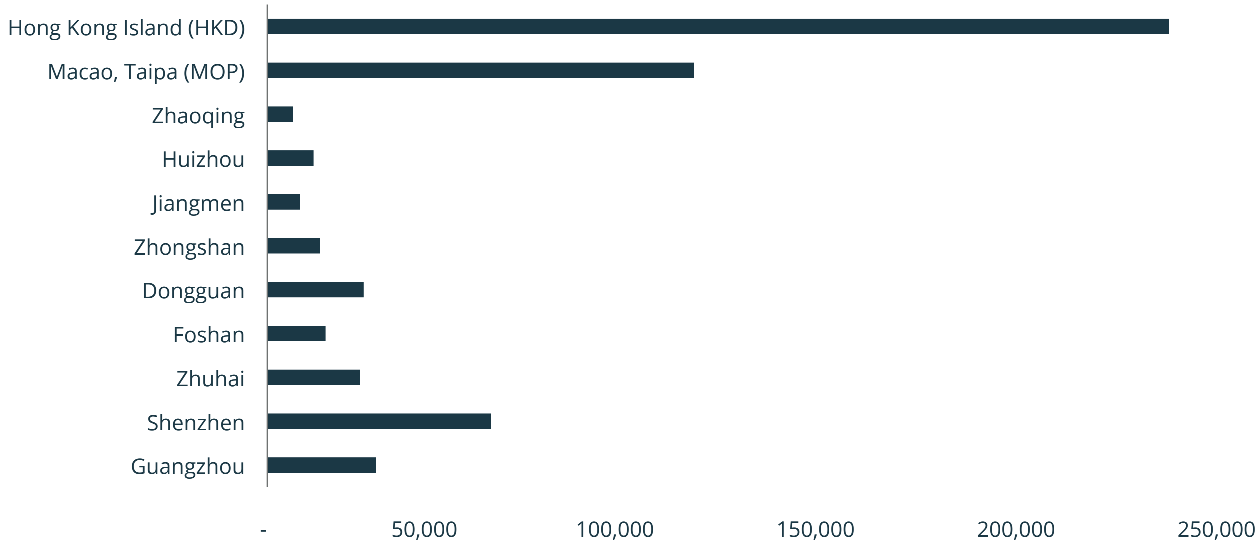
Average per capita expenditure (2020)



Overall expenditure includes groceries, transport, healthcare, etc.

The GBA at a glance

Average residential property price per sq m (Dec 2020)



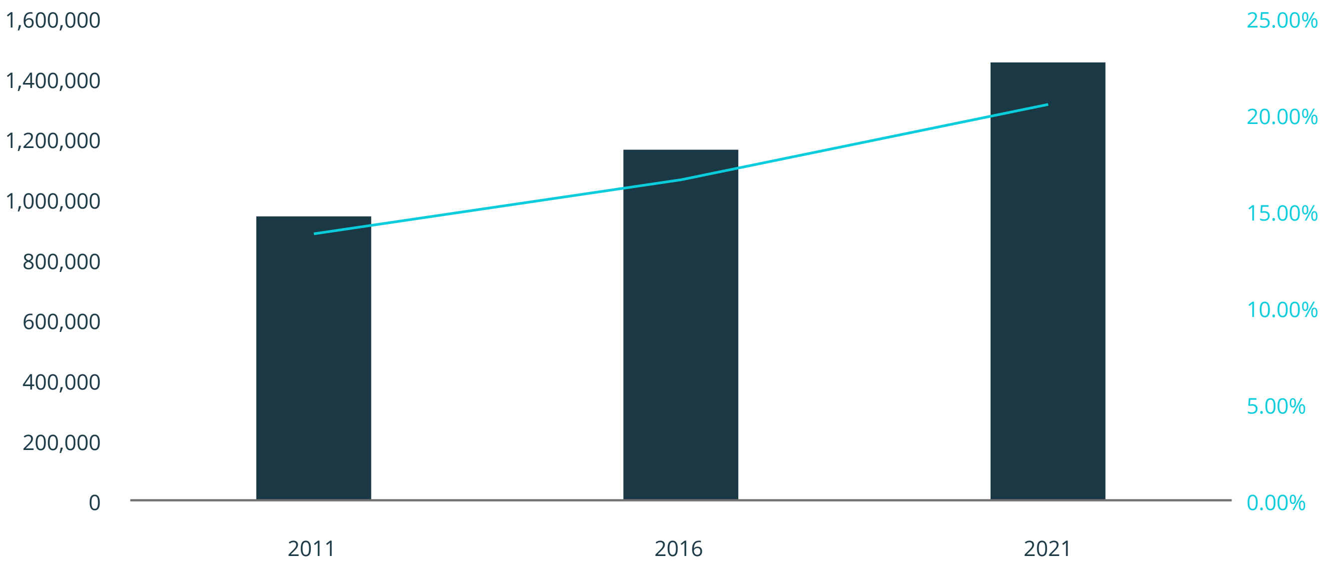
Source: CEIC

Key drivers include a rapidly ageing population, which is putting ever greater demand on essential support services. Both Hong Kong and Macao are among the ten regions globally with the most rapidly ageing populations, according to a UN study[3].

> "The GBA presents exciting growth opportunities through cross-boundary flow of human resources and capital among the 11 cities. The provisions of adequate retirement and medical services are prerequisites for successful social mobility and integration within GBA, especially for Hong Kong retirees given the city's matured MPF and Healthcare systems."
>
> **Dr. King Au**
> Executive Director, Financial Services Development Council

[3] *https://www.un.org/en/development/desa/population/publications/pdf/ageing/WorldPopulationAgeing2019-Highlights.pdf*

Hong Kong population over 65 (both sexes)



Source: www.censtatd.gov.hk

Oliver Wyman and HSBC recently conducted a survey of 3,000 Hong Kong permanent residents[4]. Of those surveyed, 72% said they plan to study, work or retire in the GBA. Among those interested in GBA opportunities, according to the report, more than 80% are considering buying properties and more than 85% are interested in cross-border medical insurance policies. 70% have a mainland bank account.

This paper has been prepared by senior experts from across the spectrum of the financial services industry – encompassing tax, asset and wealth management, consulting, insurance and banking – along with insights gathered from market participants who are already present in the GBA. In the next section of this paper, the five key factors (Social Security, MPF/ Pension Arrangement, Medical/ Healthcare, Financial Planning and Tax Planning) for living in the GBA will be explored.

[4] *https://www.oliverwyman.com/media-center/2022/jul/survey-72-hongkongers-attracted-to-mainland-gba-opportunities.html?bsrc=oliverwyman*

1 – Social security

"An adequate and sustainable retirement system calls for a multi-pillar approach. Aligned and harmonised design of these pillars would facilitate retirement benefits and retirees' portability. This would create higher quality retirement living, which is crucial in an ageing world. Whilst some flexibility has been introduced to facilitate talent/ retirees' movement, more connectivity and incentives will foster greater benefits for individuals."

Janet Li,
Vice Chairman of Executive Committee,Co-lead of HKRSA GBA Research Taskforce & Wealth Business Leader, Asia, Mercer

In this section we describe the various social security assistance schemes in effect in Hong Kong, Macao and Mainland China. We look at which of these schemes are portable for those seeking to retire in the Mainland. We also outline which schemes Hong Kong and Macao residents can participate in if they live and work in the Mainland. We then proceed to look at MPF and pension arrangements in the following section.

The Hong Kong **Comprehensive Social Security Assistance (CSSA) Scheme** provides a safety net for those who cannot support themselves financially. It is designed to bring income up to a prescribed level to meet basic needs. To be eligible for assistance, an applicant must satisfy the residence requirements and pass the financial tests.

Residence requirements[5]

i) Applicants must have held Hong Kong resident status for not less than one year; and
ii) Their one-year residence need not be continuous or immediately before the date of application. Absence(s) from Hong Kong up to a maximum of 56 days (whether continuous or intermittent) before the date of application is/are treated as residence in Hong Kong.

Financial Tests

i) The total assessable monthly household income of the applicant and his/her family must be insufficient to meet their total monthly needs as recognized under the Scheme.
ii) The total value of the capital assets[6] of the applicant and his/her family members must not exceed the prescribed limit.

[5] *For full information, please refer to Social Welfare Department - Comprehensive Social Security Assistance (CSSA) Scheme (swd.gov.hk)*
[6] *Including those in Hong Kong, Macao, the Mainland or overseas.*

Elderly CSSA recipients who meet the prescribed criteria and choose to retire permanently in the Guangdong or Fujian provinces can apply for the **Portable CSSA (PCSSA)** to continue to receive their monthly payment and annual long-term supplement.

Eligibility for Hong Kong PCSSA

a) be a Hong Kong permanent resident and have lived in Hong Kong for at least seven years;
b) be aged 65 or above; and[7]
c) have received CSSA continuously for at least one year immediately before the date of application for PCSSA. Breaks in payment totalling not more than 10 days during the one-year period are allowed.

The **Social Security Allowance (SSA) Scheme** (which includes Old Age, Disability and other allowances) is designed to provide a monthly allowance to Hong Kong residents who are 65+ years of age or severely disabled.

Social Security Insurance (SSI) in the Mainland China consists of pension, medical, work-related injury, unemployment and maternity insurances. In addition, supplemental medical insurance may be levied by some local governments. Local employers withhold the employees' SSI contributions and send them to the authorities on a monthly basis.

The Interim Measures for Residents of Hong Kong, Macao and Taiwan to Participate in Social Insurance in Mainland China stipulate[8] that residents from Hong Kong, Macao and Taiwan legally employed by Chinese entities should participate in SSI, with contribution payments made by both employee and employer. Hong Kong, Macao and Taiwan residents who obtain Mainland China Residence Permits can participate in basic pension insurance scheme and basic medical insurance schemes. At the same time, those who already participate in and maintain relationship with social insurance schemes in their home cities, can apply for exemption from basic pension insurance scheme and unemployment insurance in Mainland China. Same as Mainland China residents, Hong Kong, Macao and Taiwan residents who have made contributions towards the pension insurance scheme for at least 15 years when they reach statutory retirement age, are entitled to benefits under the pension insurance scheme.

Other measures support the special circumstances of Hong Kong, Macao and Taiwan residents working in Mainland China. For example, if they leave Mainland China before retirement, their individual social insurance accounts shall be retained and can be re-activated when they return to Mainland China. Alternatively, they can apply in writing to terminate the social insurance and receive the lump sum amount being kept in their personal insurance accounts.

The Macao Social Security System consists of mandatory and voluntary schemes. Local employees and employers are required to make mandatory contributions to the Social Security Fund, while Macao residents who meet legal requirements can also make voluntary contributions. Residents who fulfil their contribution obligations can enjoy old-age and disability pensions, and unemployment, sickness, birth, marriage and funeral allowances.

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[7] *For full information, please refer to Social Welfare Department-Portable Comprehensive Social Security Assistance (PCSSA) Scheme (swd.gov.hk)*
[8] *Interim Measures for Residents of Hong Kong, Macao and Taiwan to Participate in Social Insurance in Mainland China issued by the State Administration of Human Resources and Social Security. 29 November,2019. http://www.mohrss.gov.cn/gkml/zcfg/bmgz/201911/t20191130_.html*

2 – MPF and pension arrangements

> "MPF is core to retirement planning for Hong Kong's working population. The more accessible it is cross-border for both the accumulation and decumulation phases, the more benefits MPF members can reap wherever they retire in the GBA."
>
> **Johnny Yip,**
> Head of Business Planning, BCT Group.

The Mandatory Provident Fund (MPF) System, launched in December 2000, is designed to provide basic retirement protection for the working population in Hong Kong. It is a privately managed, fully funded contribution system, which is mandatory for all employers, employees and self-employed persons aged 18 to 64 unless exempted. It also allows voluntary contributions for better retirement protection.

Upon reaching the age of 65, MPF scheme members can withdraw their MPF benefits in a lump sum or by instalments. They may also keep their benefits in their MPF accounts for ongoing investment. MPF retirement solutions are being developed to facilitate gradual withdrawal of accumulated MPF benefits with the rest continue to be invested in the post-retirement phase.

Unlike the SSI system in Mainland China, the MPF System only aims to fulfil basic retirement needs and does not include unemployment, medical, work-related injury or maternity protection. This is because Hong Kong citizens retiring in Hong Kong normally enjoy access to high-quality public healthcare. An increasing number also have their own private medical insurance, especially since the launch of the Voluntary Health Insurance Scheme (VHIS) in 2019. Under this scheme, tax deductions of up to HK$8,000 per insured person for the premiums paid for individuals who purchase Certified Plans of VHIS for themselves or their specified relatives are allowed.

Citizens who cannot support themselves financially are subsidized by the Government's Comprehensive Social Security Assistance (CSSA) Scheme and Social Security Allowance (SSA) Scheme. Hong Kong employers are required to comply with the Employees' Compensation Ordinance in Hong Kong where insurance coverage for work-related injury or maternity during employment has to be provided to the employees.

Hong Kong citizens choosing to retire in the nine Mainland cities of the GBA with their MPF will have to consider the following:

1) Will their MPF benefits be enough for retirement outside of Hong Kong, bearing in mind the difference in living standards, medical expenses and exchange rates?
2) Will it be easy to access MPF benefits cross-border or to set up an autopay outside of Hong Kong if the amount is withdrawn by instalments?
3) If a sum is left in the MPF account for ongoing investment, will it be easy to place investment orders? Can this be done online?
4) While MPF benefits should not be subject to tax in the GBA, other investments may be subject to Mainland China Individual Income Tax. Therefore, it may be an advantage to make Special Voluntary Contributions (SVC) within the MPF system pre- or post-retirement, as these are essentially tax-free investments to accumulate retirement reserves.

Views on GBA retirement beyond MPF and pension arrangements

BCT Group conducted an informal survey of Hong Kong-based employers and employees in February 2022. Roughly half of those interviewed were open to the idea of retiring in the GBA. Their reasons were lower living costs and better equipped elderly services with more facilities. Those who preferred to retire in Hong Kong expressed the importance of a familiar neighbourhood and being close to family and friends.

All interviewees ranked medical support in the GBA as their number one concern. Other issues that were raised included: whether existing insurance coverage could be extended to the rest of the GBA; keeping in touch with family and friends; cultural differences; food safety; and flexibility of investment in terms of scope and vehicles.

All interviewees assumed that the GBA would offer lower living costs and a better living environment despite acknowledging that there was insufficient information available in the market. They all expressed a wish for greater clarity on GBA retirement planning, including practical tips through contact points, experience sharing and practical seminars.

Interviewees suggested the following ideas to give potential retirees greater peace of mind:

a) Well-known property developers to make show-flats and trial sites available for viewing (solely or with Chinese developers);
b) Social welfare department or NGOs to lead some GBA retirement initiatives, such as building elderly communities or GBA contact points;
c) Celebrity retirees to share their experience of retiring in the GBA;
d) Government departments to make GBA information more easily available by distributing leaflets or organising retirement seminars;
e) Government tax incentives, allowances or policies for cross-border healthcare protection.

“Since its inception in December 2000, the MPF System has been an integral part of Hong Kong’s retirement protection. Over the years, it has proven to be robust, resilient and sustainable. The MPF System keeps up with the times and responds to the needs of scheme members. The MPFA has been working at full steam on the eMPF Platform project which, by applying innovative digital technology, will centralize scheme administration processes across MPF trustees for higher operational efficiency and lower administration costs, bringing about a better user experience. After the full implementation of the eMPF Platform, MPF scheme members will be able to manage their MPF accounts anywhere and at any time through the Platform. Going forward, the MPFA will focus on continuous improvement of the MPF System with the aim of helping scheme members to build up savings for retirement.”

Cheng Yan Chee,
Managing Director, MPFA

3 – Medical and healthcare

Hong Kong has the highest life expectancy in the world, at an average 82.9 years for men and 88 for women. While genetics, diet, environment, hygiene and lifestyle all contribute to this longevity, access to quality medical care also plays a major role: Hong Kong's health system is regarded as one of the most efficient in the world. Alongside private medical facilities, Hong Kongers enjoy easy access to high quality medical facilities that are heavily subsidised by the Government.

"With the one-hour living circle becoming a reality, many options are on the table for Hong Kongers who are planning for their retirement, as people are no longer confined by the border. Harmonisation of policies and regulatory frameworks across jurisdictions, along with clear communications to the public, are crucial to encourage Hong Kong citizens to retire in the GBA. This will include streamlining the healthcare and pension arrangements, and information sharing between Hong Kong and the Mainland."

Catherine Tsoi,
Member of HKRSA GBA Research Taskforce & former Chief GBA Strategy Officer, Sun Life

Elderly care in Hong Kong

Hong Kong provides a wide spectrum of long term care services to the elderly:

Community Care and Support Services for elderly people
Community Support Services assist elderly people to remain living in the community for as long as possible and give support to carers. There are three types of community support services for elderly people: elderly centre services, community care services and other support services.

Community Care Services aim to provide personal care, nursing care, rehabilitation training and social activities in a familiar home and community environment for frail and elderly people who cannot receive care from their family members during the day-time. Services include Integrated Home Care Services, Enhanced Home and Community Care Services and Day Care Centre / Unit for the Elderly.

Residential Care Homes for the Elderly
The Social Welfare Department licenses and regulates residential care homes for the elderly. There are currently 796 residential care homes housing about 55,700 elderly people.

Overview of the Hong Kong health care system

Public sector

The Hospital Authority offers medical treatment and rehabilitation services through its 43 public hospitals, 49 specialist clinics and 73 general out-patient clinics. Hong Kongers enjoy easy access to public medical facilities that are heavily subsidized by the Government.

In 2020/2021, there were:

- 29,850 hospital beds
- 1.6 million inpatient discharges
- 1.6 million Accident and Emergency attendances;

(source: Hospital Authority)[9]

Private sector

There are thirteen private hospitals in Hong Kong. These operate as businesses and provide strong customer service while competing on medical provision, comfort, waiting times and quality of care. Their fees and charges are among the most expensive in the world.

- About 50,000 hospital beds
- About 280,000 inpatient discharges

(Source: Department of Health)

Residential Care Homes for the Elderly (RCHE) in Hong Kong are operated by non-governmental, non-profit making and private organisations. In accordance with the mode of operation, RCHEs are generally classified into four types:

1) Subvented Homes – subsidised by the Government;
2) Contract Homes – residential care homes obtaining their service contract through bidding, providing places subsidised by the Government as well as non-subsidised places;
3) Non-profit making self-financing Homes – operated by non-profit making organisations providing places subsidised by the Government as well as non-subsidised places;
4) Private Homes – privately operated.

[9] *Please note this data may have been affected by the impact of COVID-19.*

3 – Medical and healthcare

While government-subsidised homes in Hong Kong may cost from HK$1,600 to HK$3,000 per month, non-subsidised homes vary and may cost up to HK$60,000 per month. There are various types of places corresponding to the different care levels for elderly people under three categories:

Homes for the Aged
Homes for the Aged provide residential care, meals and a limited degree of assistance for elderly people who are unable to live independently in the community but do not need personal or nursing care.

Care and Attention Homes
These provide residential care, meals, personal care and limited nursing care for elderly people who suffer from poor health or physical/mild mental disabilities.

Nursing Homes
A Nursing Home aims to provide residential care for elderly people who cannot be adequately taken care of at the Care and Attention Homes but do not require the level of care provided in Infirmaries.

As at the end of July 2022, there were over 22,000 people waiting for a place in subsidised facilities, with an average waiting time of seven months to 3.5 years.

Residential Care Services Scheme in Guangdong
Since 2014, the Residential Care Services Scheme in Guangdong has also provided an option for elderly people who are on the waiting list for subsidised care and attention places to consider moving to care homes across the border. They can choose residential care homes for the elderly operated by two Hong Kong non-governmental organisations: The Hong Kong Jockey Club Shenzhen Society for Rehabilitation Yee Hong Heights; and The Hong Kong Jockey Club Helping Hand Zhaoqing Home for the Elderly.

(Note: The take up rate for the Guangdong scheme has not been great. So far, only 282 elderly people have opted for this scheme.)

Infirmary Unit
The Hospital Authority General Infirmary Service is positioned to cater for elderly or disabled people who require long term medical care in a hospital setting.

Challenges facing Hong Kong's healthcare system
In 2021, Hong Kong had more than 1.4 million people aged 65+, representing 20% of the total population. This figure is forecast to reach 2.5 million by 2039[10]. Hong Kong's rapidly aging population, as well as an increase in lifestyle-related diseases, will put extra pressure on the city's healthcare system, which will face huge challenges in meeting the demands of elderly care.

While Hong Kong's public hospital system is world-renowned for its high quality and efficiency, it is increasingly over-burdened, resulting in long waiting times for the majority of medical treatments and services.

This situation is aggravated by a chronic shortage of doctors and medical professionals, which was further laid bare by the Covid pandemic. Insufficient elderly-friendly accommodation exacerbates the situation further and puts even more pressure on the public hospital system.

As Hong Kong moves to manage the looming challenges posed by these significant demographic changes, providing more elderly-friendly accommodation options with the right healthcare facilities and staffing will be crucial in overall planning.

What Hong Kongers are looking for:

1) **High quality and safe medical treatment**
Hong Kong public hospitals boast modern medical equipment and are governed by high standards. Public hospitals have quality and safety units which monitor risks and conduct root cause analysis after every incident. Doctors and medical professionals are well qualified. Hong Kongers have faith in the quality and safety of the medical treatment they receive.

2) **Easy access to hospital and medical services**
Hong Kong benefits from a dense and compact environment, meaning that clinics, hospitals and pharmacies are usually not far away from where people live. Hong Kongers are also very used to being able to access excellent emergency services.

3) **Affordability of medical services**
Hong Kong's public medical services are very affordable. For those who do not want to endure the waiting time, there are also private hospital options. The Government is encouraging wider use of private health care services by implementing the Elderly Health Care Voucher Scheme and promoting the VHIS. These allow people additional choice of private healthcare services and aim to relieve the pressure on the public healthcare system.

4) **Availability of carers**
Many Hong Kong households have domestic helpers. There is less of a culture of placing the elderly into old-age facilities, as domestic helpers often double up as carers and provide much needed company. This has enabled many elderly people to continue living in their own homes among their own neighbourhood and community. However, it also means that facilities for the elderly are less developed in the city.

> "As connectivity within the Greater Bay Area deepens, it is incumbent upon us to explore how to give full play to complementary strengths for the benefit of residents in this dynamic market. One interesting idea is to leverage land and manpower resources available in our neighbouring cities to provide reliable elderly care services for Hong Kong people seeking an accessible and affordable location to spend their retirement life. To this end, the Insurance Authority has been working closely with industry stakeholders and counterparts in the Mainland on the essential infrastructures, such as data transfer protocol, after-sales service centres and innovative insurance products. Such efforts will sustain and intensify in future so as to assist the Government in coping with the social burden posed by a rapidly ageing population."
>
> **Clement Cheung,**
> Chief Executive Officer, Insurance Authority

[10] *Source: Census and Statistics Dept., HKSAR*

4 – Financial planning

"Retirement protection is not enough for many Hong Kong retirees. Earlier financial planning is of the utmost importance to prepare for retirement. The Government should implement more measures to encourage Hong Kong people to save earlier. These could include tax incentives for pension contributions, allowing pension providers and insurance companies to launch more innovative pension products and insurance policies to attract more retirement savings."

Raymond Sze,
Member of HKRSA GBA Research Taskforce & Executive Director,
Taikang Asset Management (Hong Kong) Company Limited

According to research on Hong Kong retirees' expenses conducted by the Institute of Financial Planners of Hong Kong (IFPHK)[11], their major sources of income are personal savings, financial support from family members, and passive income. The IFPHK also estimates that monthly expenses for retirees exceed HK$13,000 on average.

The Occupational Retirement Schemes Ordinance and MPF schemes are the available retirement protection schemes for the working population in Hong Kong. The majority of pre-retirees keep over 40% of their personal savings for retirement either in cash or time deposits with a very low interest rate. These provide low growth and weak protection against inflation. Some pre-retirees are unaware of the investment performance of their MPF and pay little attention to their MPF accounts. The accumulated investment in MPF accounts, especially for those in lower-income groups, is insufficient to provide a reasonable retirement income. This is due to factors such as low monthly salary, low contribution rate and minimum and maximum relevant income levels for MPF contribution purpose as well as the current practice of permitting severance and long service payments to be offset against MPF benefits[12].

Given the shortcomings of these schemes, insurance companies in Hong Kong have launched a wide range of savings insurance plans and investment-linked assurance schemes to help pre-retirees achieve their financial goals for retirement. Annuity is one of the long term insurance products commonly used to help a policyholder to convert savings into a steady stream of income. It can generally be categorized into immediate annuity and deferred annuity. The deferred annuity has an accumulation phase while immediate annuity does not.

From the year of assessment 2019/20 onwards, premiums paid for Qualifying Deferred Annuity Policy (QDAP) that meet the requirements in the guideline issued by the Insurance Authority will be eligible for tax deduction under

[11] *Hong Kong Retirement Expense Index issued by the Institute of Financial Planners of Hong Kong, 6 June 2022. http://www.ifphk.org/pdf/press_release/PR20220606_en.pdf*
[12] *An Amendment Bill was passed on 9 June 2022 to abolish the use of the benefits of employers' mandatory contributions under the MPF System to offset severance payment and long service payment (the offsetting arrangement). The Government will implement the abolition of the offsetting arrangement in tandem with the full implementation of the eMPF Platform of the MPFA, which is expected to be in 2025. After this takes effect, employers can no longer use the accrued benefits derived from their mandatory MPF contributions to offset employee's severance payment or long service payment.*

salaries tax and personal assessment[13]. The Hong Kong Mortgage Corporation Annuity Plan, launched in July 2018, offers Hong Kong Permanent Residents aged 60 years or above another option. This immediate annuity plan offers a monthly lifelong income stream to the annuity holder. While there is currently no official policy on MPF-annuity conversion, the Administration encourages the public to convert their one-off assets under MPF into an annuity, so as to provide a steady income upon retirement[14]. The social security system in Mainland China is more comprehensive than that of Hong Kong.

The China Banking and Insurance Regulatory Commission has approved the establishment of the new National Pension Insurance Company. This institution will participate in the development of the third-pillar private pension system. It will focus on innovative products, such as pension annuity insurance, exclusive commercial pension insurance and commercial pension plans. In addition, the State Council introduced a new private pension scheme in April 2022, enabling pre-retirees to make voluntary deposits into a pension account and invest their pensions in stable investment vehicles. This aims to address shortcomings in the current pension system caused by the ageing population.

With the new private pension scheme, pre-retirees will have more options. This will create a lucrative new market for fund houses, banks, wealth management companies and insurers. It will create more connectivity should Hong Kong citizens living or working in the GBA choose to participate.

Challenges for service providers

Cross-boundary sales to both pre- and post-retirees is one of the key challenges for service providers in the GBA market. Unlike existing cross-boundary programmes, such as Stock Connect and Bond Connect, wealth management requires service providers to have closer interaction with clients in order to understand their investment preferences and risk appetites. The new Wealth Management Connect scheme should be leveraged to enable cross-boundary sales of financial planning or pension products. This will entail allowing wealth managers (WMCS) in Hong Kong to do business in other parts of the GBA and vice versa.

Financial regulation varies in different parts of the GBA. These differences in the supervision of wealth management impose requirements on commercial banks involved in WMCS in areas such as channel sales, client servicing, product management, risk management, and information disclosure. Regulatory requirements stipulate “double records” (audio and video recordings) during sales of wealth management products by banks in Mainland China.

[13] *https://www.legco.gov.hk/yr18-19/english/bc/bc05/reports/bc0520190320cb1-693-e.pdf*
[14] *https://www.legco.gov.hk/yr2022/english/panels/ws/minutes/ws20220711.pdf*

5 – Tax considerations

Typical scenario for Hong Kong retirees in the GBA
We can assume that Hong Kong retirees' main sources of funds will be MPF benefits, investments (e.g. gain or dividend income from equities), property rental and payments from insurance policies.

Most Hong Kong retirees will not have domicile under PRC tax law when they first move to the GBA (unless they habitually reside in Mainland China according to household registration, or have family ties or economic interests.) They may then be regarded as Chinese non-resident taxpayers (NRT) or resident taxpayers (RT) depending on the number of days they were physically present in Mainland China in a given tax year:

NRT – No PRC domicile and physically present in Mainland China for less than 183 days.
RT – spending 183 days or more during a year.

> "Taxation is a cost element people tend to overlook as part of their decision making. In fact, it requires careful planning and awareness ahead of finalising a decision or it may be too late and irreversible."
>
> **John Chan,**
> Tax Partner, PwC Mainland China and Hong Kong.

Tax Consequences
MPF benefits received by Hong Kong retirees while they reside in the GBA, whether they are NRT or RT, is not subject to Mainland China Individual Income Tax (IIT).

If Hong Kong retirees residing in the nine Mainland cities of the GBA make profit and/or income from equity investments or rental income, their IIT liability will be based on their Mainland China tax residency status and source of income, as follows:

If Hong Kong retirees are NRT in a relevant tax year, they only need to pay IIT on investment income/profit and property rental income sourced from Mainland China. There is no IIT payable on investment income and property rental income sourced from Hong Kong.

If Hong Kong retirees are RT in a relevant tax year, there are two potential outcomes:

1) If Hong Kong retirees reside in Mainland China for 183 days in a relevant tax year but not for six consecutive years (including the relevant tax year), they need to pay IIT on investment income/profit and property rental income sourced from Mainland China in that year. Investment income/profit and property rental income sourced from Hong Kong are generally not subject to IIT.
2) If Hong Kong retirees reside in Mainland China for 183 days in a relevant tax year, have been residing in Mainland China for six consecutive years (including that relevant tax year) and have spent 183 days or more in Mainland China each year, they are required to pay IIT regardless of whether the investment income/profit and property rental income is sourced from Mainland China or Hong Kong.

Payment from insurance policies is generally tax exempt. However, the IIT law is not clear as to whether insurance policies with investment elements should be taxable or tax exempt. This is a grey area that Hong Kong retirees need to bear in mind.

6 – Recommendations

Social security

Greater portability of social security benefits (participation, contribution and withdrawal) across the GBA will be needed as workers become more mobile across the region. This should be expected as the GBA initiative grows in importance.

MPF / pension arrangements

The network of MPF providers should be encouraged to provide comprehensive first-hand information on GBA retirement options for both employers and employees.

Innovative new MPF products should be developed to tackle GBA-specific concerns. For example, as with the Tax-deductible Voluntary Contributions (TVC) and SVC, a fixed amount could be a GBA-oriented Voluntary Contributions and the withdrawal of such portion could be for supporting medical or residency costs of Hong Kong retirees who will reside in the GBA.

It would be beneficial to extend the MPF system, which has been continuously enhanced over the past 20+ years, to include investments by the Enterprise Annuity (EA), Occupational Annuity (OA) and third-pillar voluntary pension participants. This would create mutual benefits – building scale and incentivising innovation for Hong Kong MPF providers, as well as allowing Mainland investors to have broader and more established investment options to choose from.

Government incentives could help MPF providers develop more seamless cross-border MPF contribution/withdrawal arrangements for those Hong Kong people with MPF or related investments before moving to GBA.

SVC for all GBA residents should be allowed as an extra layer of retirement savings.

Medical / Healthcare

The Covid outbreak in Hong Kong's care homes revealed the vulnerability of those in elderly facilities and served as a reminder that more resources will need to be poured into this space.

As more middle class Hong Kongers retire in the next 10-15 years, there will be more demand for higher-quality accommodation for elderly people. Technical standards for elderly care development and provision of elderly services need to be formulated. These should incorporate improved safety and hygiene standards to help prevent the spread of infectious diseases and allow ease of mobility for the elderly.

While more care homes should be built in Hong Kong, the GBA could help widen the offerings to the elderly population. With improved infrastructure that significantly shortens travel time, frequent family visits have become a reality – enabling families to remain more involved in the care of their ageing relatives.

The greater availability of land within the GBA means that accommodation can be more spacious with modern elderly-friendly designs and facilities. The long-term strategy should be to create and build an ecosystem to address retirement and elderly needs and provide sustainable solutions where social and healthcare/medical needs can be supported financially. This will require long-term planning and favourable policies. The Government should encourage more public and private partnerships and/or new incentives to facilitate the development of elderly-friendly accommodation in Hong Kong, as well as in the GBA.

Recent measures to allow designated Hong Kong-owned healthcare institutions in the GBA to use Hong Kong-registered drugs and medical devices is a great first step to promoting better coordination between the two medical systems in the Mainland and Hong Kong.

With the patient's consent, providing access to Hong Kong medical records can ensure Hong Kongers receive the most suitable treatment across the border.

Tech innovations for elderly care should be encouraged to enrich retirement living, such as AI /facial recognition for proof of identity and medical record sharing between Hong Kong, Macao and the rest of the GBA.

Financial planning

Increasing the tax incentives for TVC will provide financial incentives to pre-retirees to make voluntary contribution to their MPF schemes. TVC account holders can enjoy tax deductions under salaries tax or tax under personal assessment. Currently, the maximum tax deduction amount is HK$60,000, which is an aggregate limit for both TVC and QDAP premiums.

With higher limit for TVC, pre-retirees can make contributions of varying amounts at irregular intervals to enjoy tax concessions. This will encourage MPF scheme members to make voluntary contributions to boost their retirement savings and better prepare for their retirement.

In Hong Kong, the popularity and penetration rate of annuities is low. Pre-retirees need better investor education on decumulation. They should explore strategies and tools to utilize their assets to ensure that accumulation lasts for as long as they need it.

Currently, the tax incentive of HKD60,000 is the maximum aggregate for both TVC and QDAP, it would recommend to consider the separation of tax incentives for TVC and QDAP. This will facilitate the development of the deferred annuity market as another alternative under the voluntary third-pillar in Hong Kong. Greater local and cross-border cooperation between insurers in Guangdong, Hong Kong and Macao can stimulate the development of annuity products in the GBA.

The Government could develop innovative pension products and services in the Greater Bay Area and enhance the recently-launched WMCS. With gradual enhancement, pension development will mature and more choices for retirement planning will become available in the GBA market.

Should there be a dedicated authority to promote, financial institutions can bring out more relevant products and services to support the interconnectivity of financial markets in the GBA and meet the needs of both pre- and post-retirees in the region.

Given the financial profile of GBA residents, wealthy pre- and post-retirees may demand more innovative and high-quality insurance products. In Mainland China, many local insurers provide retirement community insurance products. A wider range of high-quality insurance products will encourage pre-retirees in the GBA to prepare for retirement earlier.

Taxation

To promote the GBA as a destination for retirees - especially for those from Hong Kong – the tax authorities should consider providing targeted tax concessions. For example, they could treat Hong Kong retirees as non-resident taxpayers (see Part Five above) regardless of the number of days they spend in the Mainland.

Otherwise, under the current arrangements, Hong Kong retirees wishing to better manage their Mainland China tax exposure may want to consider staying in Mainland China for less than 183 days each year. If they stay for 183 days or more in a relevant tax year, they may need to make sure this is not done for six consecutive years.

Conclusion

In this paper we have identified a number of drivers for Hong Kong residents to consider the Mainland part of the Greater Bay Area as a retirement destination. Chief among these is the differential in the cost of living. However, greater clarity about the portability of certain social security schemes and pension arrangements, as well as their broader implementation, may also serve to reassure those considering this option.

> “Retirement planning is important for everyone, as retirement ages may mean different things to different people. Hong Kong retirees who have contributed to society throughout their working lives deserve a stable, peaceful and meaningful retirement. The GBA is an attractive destination for Hong Kong retirees. It is important that different stakeholders – including regulators and market players – contribute their insights into how to formulate a robust social, medical, wealth management and tax framework for the GBA over the long term.”
>
> **Helen Li,**
> Co-lead of HKRSA GBA Research Taskforce & Assurance Partner,
> Financial Services, Asset and Wealth Management Industry, PwC Hong Kong

While these drivers remain in place, the ability to act on them has been almost completely curtailed by the travel restrictions resulting from Covid. As these restrictions start to be relaxed, we can expect to see a surge in the number of Hong Kong residents interested in starting to make arrangements for a GBA retirement.

We have also identified areas where regulators, financial institutions and private sector service providers could do more to enhance the attractiveness of this retirement option. These range from GBA-specific insurance products to the use of technology to facilitate proof of identity and cross-boundary sharing of medical records. The opening of MPF for investments by Mainland EA, OA and third pillar voluntary pension participants, greater allowances for tax-deductible voluntary contributions (e.g. TVC) into MPF and other retirement products would certainly prove to be popular with this demographic.

As we see ever greater mobility between the 9+2 cities of the GBA, the sort of retirement arrangements outlined in this paper will become commonplace. We believe our recommendations can help accelerate this process.

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