Rich or Poor:

Tax Deductible Voluntary Contribution is Engine of Growth

BCT 銀聯集團

Who wants a rich retirement? Everyone does, but retirement planning is not just for old people. Young people should do it and do it as early as possible as there is not much that you can do if you leave it too late. **"Time" is the key if you want to make your money grow.**

Retire Well is to Plan Well

There are so many ways that you can grow your money and build up retirement nest egg, such as investing in stocks, bonds, funds, properties, commodities or buying annuities, but to do any of that, you need to have **(1) a certain sum of money** and **(2) a lot of time to research on how they work**, their potential returns as well as risks. So, many people are scared away and forget about retirement planning at all.

Having said that, **an easy way is up for grabs – MPF**. In Hong Kong, the workforce is mostly covered by the MPF System. They generally contribute 5% of his/her monthly salary to the MPF and this applies to his/her employer too, which equal to 10% of his/her salary or a maximum of $1,500 a month.

As MPF is mandatory, why not make better use of these contributions? The saying **"small savings add up to big money"** is exactly what MPF is. For 20 years, the MPF has been doing well, it currently has over $1 trillion of assets and one-third of it is investment returns. Some members even have over $1 million in their MPF accounts. In BCT, we found out **3 key investment behaviours among our MPF millionaires:**

1) 92% had their employers make voluntary contributions into their accounts
2) 12% made tax deductible voluntary contributions (TVC)
3) 9% had special voluntary contributions (SVC)

Source: BCT MPF member data as of August 2020

Here, you can see a common term – "voluntary contributions", which reflects that any additional contribution is essential for building a big retirement savings pool. Employer voluntary contributions are done through employers, but TVC and SVC are entirely up to you. They are both **easy and flexible**, you can choose **how much** and **when** you want to contribute, depending on your personal circumstances. Do note that TVC can only be withdrawn when you reach the age of 65 or meet specific withdrawal requirements, but you are free to withdraw your SVC accrued benefits anytime. So, is SVC the best bet?

TVC Saves More for Future

In fact, TVC has unparalleled **dual benefits** of building up retirement savings pool and at the same time, allowing you to **pay less tax**, in which none of the other voluntary contributions can give. As of November 2020, BCT TVC recorded double-digit growth and the **average return** was **12%**, which proves to give members good investment return. Those who contribute HK$60,000 to their TVC accounts can also save up to HK$10,200 of taxes annually, which can then be used to re-invest for retirement.

Plus, it is highly **flexible and simple**. There is no fixed frequency or amount of contributions for TVC. You can make contributions

- ✓ regularly or as a lump sum
- ✓ as little as HK$300
- ✓ at any time
- ✓ with more or less amount, or even cease it if you want

In addition, you have **full control** of your TVC. You can open a TVC account and make contributions directly with the trustee of your choice, without engaging your employers.

According to the data of BCT TVC members, we see that most of them make $5,000 monthly contributions via direct debit authorisation. By keeping the total investment amount intact at $60,000, this is in fact a good use of dollar cost averaging to reduce market risk through regular investments at predetermined intervals and amounts over time.

"Earn, Save, Grow, Preserve" is the Basis of Retirement Planning

To better plan for your retirement, saving while you are working is critical. **"Earn, Save, Grow, Preserve"** is the fundamental principle, no matter what kind of investments you have.

"Earn" is the first step, which means salary in general. In MPF, it refers to 10% mandatory contributions of your salary. Then, "Save" and "Grow" the assets through making different investments, including MPF voluntary contributions such as TVC and SVC. Lastly, "Preserve" refers to actively manage your assets and make suitable investment decisions at different life stages to make money last.

As mentioned in the beginning, **"Start Early"** is important, but **"Stay Engaged"** and **"Stay Invested"** are becoming more important for retirement success nowadays when new technologies and digital tools flourish in changing people's lives and life expectancy is longer than ever. There is just one last caveat, making appropriate choices during accumulation phase is a prerequisite for decumulation phase and MPF does matter.

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 BCT Group

BCT Group, comprising BCT Financial Limited (BCTF) and Bank Consortium Trust Company Limited (BCTC), is a leading provider of MPF/ORSO solutions and best-in-class asset servicing for global investment funds and pensions. As of December 2020, we help manage over 1.2 million pension accounts for members in Hong Kong and around the world with assets under administration exceeded HK$213 billion.