Retirement-ready: From deficit to adequacy

BCT 銀聯集團 20

How do you want your life to be when you retire? Your retirement depends on how you plan and act on it regularly. The earlier you start planning, the more abundant and comfortable your retirement will be.

Hong Kong people are not retirement-ready

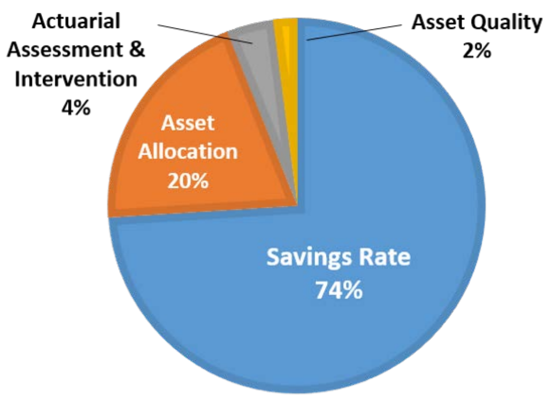
In Hong Kong, an alarmingly high number of people are not retirement-ready. According to Franklin Templeton 2019 RISE Survey, more than half of the survey respondents of pre-retirement age in Hong Kong hadn't started saving for retirement, and over half were worried about running out of money in retirement. As you know, Hong Kong has a rapidly ageing population, as people have longer life expectancy, the need to save, invest and grow their savings effectively becomes more pressing.

Unfortunately, most people don't know how to plan, plan poorly or don't bother to plan at all, which leaves them with a big retirement savings gap that outlives their assets. Whilst some people rely on personal savings and some on social security, one of the mistakes that a lot of Hong Kong people actually make is overlooking the power of various retirement savings vehicles such as MPF and missing out on opportunities to maximize their retirement savings.

MPF makes a difference in your retirement

MPF matters when it comes to retirement success, given that most working people in Hong Kong have at least one MPF pension account. Although the 10% mandatory contributions (MC) from employers and employees seem insignificant and are said to be insufficient for retirement, MPF is, in fact, a crucial part of your retirement savings which is easy to implement to improve savings rate. According to the ASPPA Journal's article titled "Retirement Success: A Surprising Look into the Factors that Drive Positive Outcomes", savings rate (74%) is the primary driver of retirement success, which is far more important than asset allocation (20%), actuarial assessment and intervention (4%), and asset quality (2%). Therefore, with a higher savings rate in MPF, it is more likely for people to retire with adequate savings without deteriorating living standard or buying power.

The Relative Importance of the Drivers of Retirement Success



Source: "Retirement Success: A Surprising Look into the Factors that Drive Positive Outcomes", The ASPPA Journal, Vol 41, No. 3 (Summer 2011)

Under the current MPF system, other than MC, you can indeed make voluntary contributions (VC) to build up retirement savings. Statistics show that making both MC and VC can create a positive impact on the final accrued benefits because of the fund accumulation over the years and the power of compounding effect.

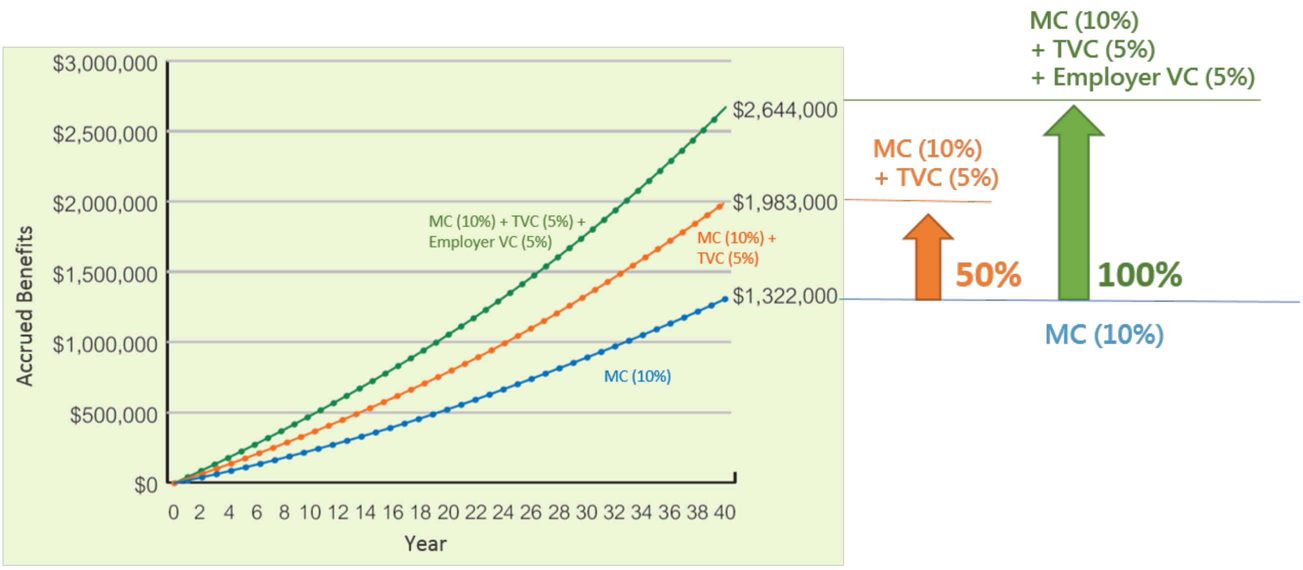
VC is the key here, yet it is not popular and widely-adopted that the contributions remain low over the years, making the adequacy of the MPF system a main concern. In 2016, the "Outcomes Based Assessment Framework for Private Pensions" developed by the World Bank showed that Hong Kong's MPF System lagged behind in adequacy against international benchmarks, though it measured well in terms of coverage, sustainability and security.

Having said that, this is going to change with the introduction of the tax deductible voluntary contributions (TVC) since April 2019. Under the World Bank's 5-pillar pension conceptual framework, TVC, a simple, flexible and discretionary voluntary contribution with tax incentives, is the "third pillar" to supplement other pillars, which provides additional retirement protection for Hong Kong's working population.

TVC is a win-win-win solution for scheme members, employers and society

<u>Scheme members</u>

- TVC offers dual benefits of reducing tax burden and increasing your retirement reserves. Since 1 April 2019, you can make contributions to a TVC account and save as much as $10,200 on tax, subject to the tax deduction cap of $60,000 and the highest tax rate of 17% from the assessment year of 2019/2020 onwards.
- You can contribute as low as HK$300 at any time you want, and you can increase, reduce the contributions amount, cease or resume making contributions along the way, subject to your life circumstances.
- You can also enjoy a remarkable increase on final accrued benefits. Statistics show that a scheme member who makes 5% of his / her relevant income as TVC on top of the 10% MC for 40 years will have 50% more accrued benefits, than another with MC only.



Assumptions:

- Relevant income is set at $18,000 and there is no pay adjustment in real terms throughout 40 years.
- Contributions are made on a monthly basis.
- The annual investment return is 2% per annum which is net of fees and charges and inflation.
- All figures in this example are at 2018 price.

Source: Statistical Analysis of Accrued Benefits Held by Scheme Members of Mandatory Provident Fund Schemes, MPFA (Aug 2019)

Employers

- TVC is an easy way to increase employee's savings pool and enhance their retirement protection without involving employers in administration.
- You no longer need to go through the hassles of scheme selection, member account setup, contribution remittance, etc, whilst employees are given full control to manage TVC themselves.
- You just need to give TVC information and facilitate employees' understanding to let employees enroll themselves.

Society

- TVC is an additional layer of retirement protection which helps enhance retirement adequacy of Hong Kong's working population. With every working person contribute more with TVC, the total savings pool for retirement in Hong Kong will grow, hence increasing the retirement readiness in Hong Kong.

Keep in mind that simply saving is just not enough, you should exercise caution when investing the money you saved too. Contribute more from an early age and making good use of all financial tools can guarantee you a desirable retirement, not a miserable one.

Source: BCT Group

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 key provider of MPF/ORSO products and best-in-class asset servicing for investment funds and pensions with BCTC being one of the largest trust companies in Hong Kong. As of December 2019, our assets under administration exceeded HK$180 billion, serving over 1.1 million member accounts.