

The 10th Cross Straits Pension Forum

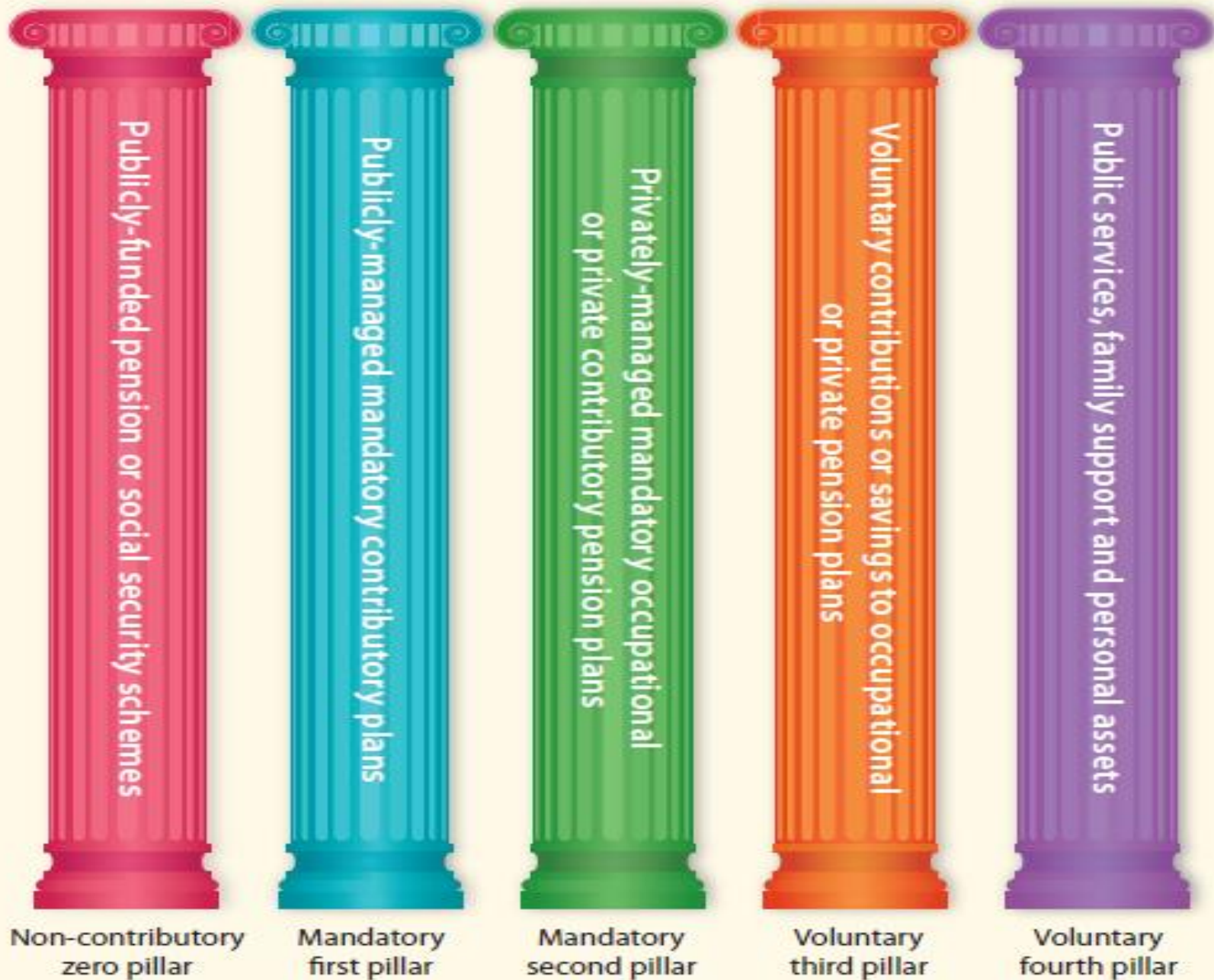
INNO PENSION
革新·養老



Retirement Protection

C.K. Law

Diagram 3.1 World Bank's multi-pillar model



Publicly Funded Social Security Schemes Mid-2018

- Comprehensive Social Security Assistance (CSSA)
 - Average about HK\$6,100 per month
 - 11% of those aged 65+
- Higher Old Age Living Allowance (HOALA)
 - HK\$3,485 per month
 - 33% of those aged 65+
- Old Age Living Allowance (NOALA)
 - HK\$2,600 per month
 - 5.7% of those aged 65+
- Old Age Allowance (OAA, non-means tested for those aged 70+)
 - HK\$1,345 per month
 - 19.9% of those aged 65+

Privately managed Mandatory Provident Fund (MPF)

- Contribution rates (5+5%, employer and employee)
 - Employees earning $< \$7,100/m$ (minimum relevant income level) do not have to contribute
 - Employees earning $\geq \$30,000/m$ (maximum relevant income level) only have to contribute \$1,500
- Fragmentation of employee accounts (lack of portability)
 - 2.8M employees/self-employed persons under MPF
 - 9.5M MPF accounts
- High management costs (e.g. high collection costs)
- Employers' contribution can be used to offset severance payment (SP) and long service payment (LSP)

Future developments: MPF

- Review on the minimum and maximum relevant income level is underway
- Abolishment of offset mechanism (earliest by 2023)
 - Over 91% of employers contribution were used to offset SP/LSP for affected employees
 - Announcement in Policy Address (Oct 10): Government decision to abolish offset mechanism
 - After abolishment, effective contribution rate back to 5+5% and full portability can be implemented
- Development of e-MPF – substantial reduction in management costs (target implementation: 2022)

Public Annuity

- Upfront lump sum payment by MPF
 - Investment risk and most people do not know how to invest
 - Longevity risk
- HKMC Annuity Limited: launched its first life annuity offer in July this year. (Its CEO Edmond Lau will speak in the afternoon)
- Lowest entrance sum: HK\$50,000
- Money (and its residual/surrender value) put into annuity programmes will not be counted as asset in the application of Old Age Living Allowance, thus those with limited MPF at retirement can join the public annuity and income supplemented by OALA (i.e. shared responsibility of retirement protection).

Example of Public Annuity and OALA

- A male retiree at age 65 with only HK\$600,000 MPF proceeds
- Put HK\$500,000 in public annuity, obtaining about \$2,800/m
- Eligible to obtain Higher OALA of \$3,485/m
- Total \$6,285/m

Reverse mortgage

- We can say that for many retirees, their home ownership is probably the major asset that they have and for some, it can be their only asset
- HKMC offers life long reverse mortgage and participants can live in their own home till they die.
- Community is gradually picking up this option (in Sep 2013: cumulative applications 472)
- (in Sep 2018: cumulative applications 2,866)

Possible future options

- Home owners: Trade down with proceeds putting into public life annuity (maximum \$1M) + private life annuity
- Public annuity: proxy inflation adjusted annuity payment (e.g. 2% adjustment every year) to counter inflation.

Thank You