MENDING THE LONG-TERM SAVINGS GAP IN HONG KONG

WHAT INDUSTRY EXPERTS AND CLIENTS ARE TELLING US

HOW SERIOUS IS THE PROBLEM?

The retirement savings deficit is one of the greatest global crises of our time, and there is no silver bullet. Today, the gap between expected annual retirement income and the savings in the outdated pension systems of the eight largest countries in the world is US$70 trillion. Without action, this gap will grow to US$400 trillion by 2050.[1]

In Hong Kong, this reality isn't going away any time soon. There has been an increase in the proportion of elderly (age 65+) within the population from 12% in 2006 to 16% (1.16 million people) in 2016. In 1986, this figure was just 8%.[2]

By 2041, for nearly every three people, there will be one elderly person who is 65 or older in Hong Kong[3]; hence, a smaller workforce will slow economic growth. As in other developed cities, in Hong Kong, a healthier diet, better medical access and advances in technology are allowing an increasingly elder workforce to stay productive even after their 60s. Fewer Hong Kong parents expect to rely on their children for support; they need to work longer to support themselves.

"According to our own survey, only 37% of the working population thinks they are going to be able to retire comfortably. And 13% of them have not even started saving. There is also the element of engagement — it is difficult to get people to talk about this problem, especially at a younger age, as there are so many competing demands for finite financial resources. How to raise the engagement level is a problem that is being faced by the industry overall."

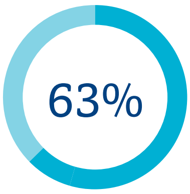
– **Alfred Yip**, Head of Pensions, The Hongkong and Shanghai Banking Corporation

"Millennials, for example, see this as a future problem and not a current one. Global statistics show Millennials are saving less than Baby Boomers did. So the problem is only going to get worse."

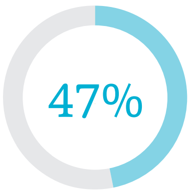
– **Julio Portalatin,** President and CEO, Mercer

1. Mercer. *Bold Ideas for Mending the Long-Term Savings Gap,* 2017.
2. 2016 Population By-census of Hong Kong, announced February 27, 2017, from Census and Statistics Dept., Government of Hong Kong Special Administrative region.
3. Ibid.

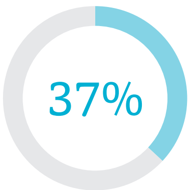
WHY IS THERE A RETIREMENT SAVING GAP IN HONG KONG?



Mandatory contribution rate is too low



Lack of tax incentive



Lack of financial education

HOW CAN PENSION SYSTEMS BE IMPROVED IN HONG KONG, ASIA AND GLOBALLY?

At Mercer's Pension Seminar in August, a panel of industry experts held an interactive discussion on how well prepared Hong Kongers are to sustain themselves and future generations into old age. Here are Mercer's perspectives on the bold ideas to improve pension planning and close the pension savings gap, along with insights from the panel discussion and the live poll.

"We operate in accordance with a multi-pillar system. Pillar zero is social security. And pillar one is universal pension, which has already been ruled out, as it is considered not affordable and not supported by the public. Pillar two is the MPF system, which only covers the working population. Pillar three is voluntary saving, which is something many Hong Kong people have been doing. And pillar four covers social services like housing, healthcare, welfare services and family support."

– Cheng Yan-chee,
Chief Corporate Affairs Officer and Executive Director,
Mandatory Provident Fund Schemes Authority

"The MPF contribution rate itself is not too low compared to the region, but the salary cap is far too low compared to many countries. So I think that's something that can be fixable. And, as mentioned, a lot of savings is accumulating in voluntary and bank deposits rather than in long-term retirement savings. So the HKRA is working with a lot of employers on mobilizing some of the short-term savings into long-term saving and in a more systematic format based on the nice work set up by the MPFA."

– Vanessa Wang,
Chair, The Hong Kong Retirement Schemes Association

SPUR A CONSUMER REVOLUTION IN FINANCIAL FITNESS

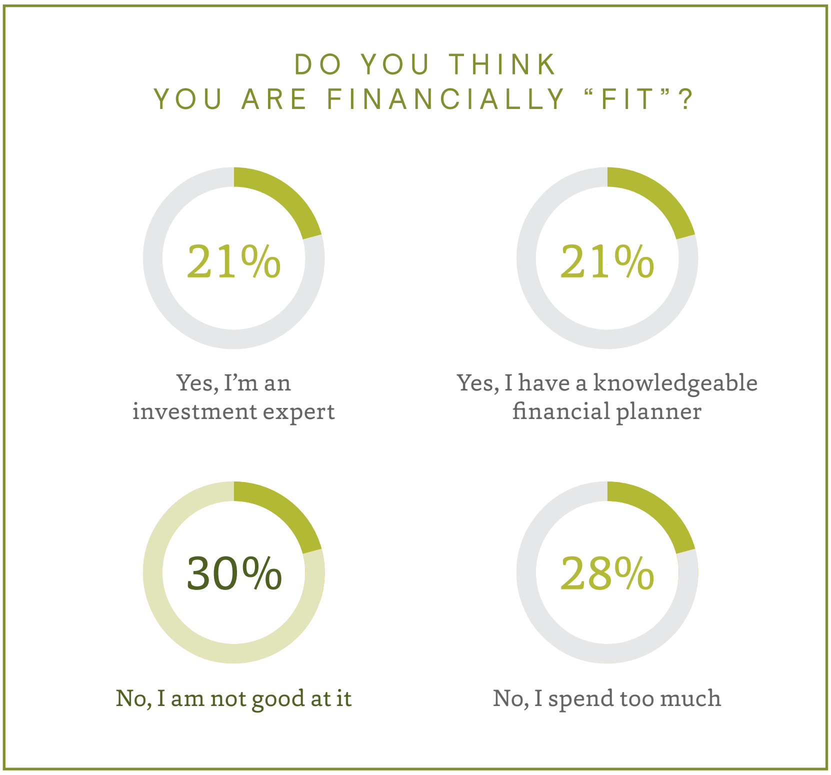
"The new generation, the next generation, wants something very different. Their engagement is very different. ... Above all, they need a trigger. They need something different from telling them to put more money away or giving them a tax incentive."

– Vanessa Wang,
Chair, The Hong Kong Retirement Schemes Association

Transforming saving into an engaging consumer experience could make it "cool," just as the fitness revolution of the 1970s made exercising widely appealing. Just like exercise, saving can be painful, both because it gives individuals more pleasure to consume now than later and because interacting with savings products and financial intermediaries is, at best, complex, confusing and time-consuming and, at worst, expensive or even ruinous.

"To make it 'cool' for the next generation is to make it acceptable for them to make decisions. It doesn't matter whether we agree or not. Forget that. What we want is engagement and decision-making, and planning and making good choices for the future. Whatever it takes, we should be ready to do it to achieve different outcomes."

– Julio Portalatin,
President and CEO, Mercer



Simplification is a hot topic. Almost everything we do around pensions is overcomplicated, and most people tend to tune it out. We need to make it simple to make it informative.

HELPING INDIVIDUALS KNOW WHAT "GOOD" LOOKS LIKE

Give individuals access to smart tools, default options and advice that can help them increase their financial literacy and achieve success. There's a different answer for each generation. The fastest growing generation is the Millennials, which is why it's important that we start with them. Not only are they the majority, but they are likely to continue to be the majority for years to come.

Many of our tools are still very traditional. Developing digital tools that allow the new generation to make decisions in an environment where they are most comfortable will go a long way toward getting their attention and having them act.

"Education and engagement are extremely important, especially when you are young. We emphasize the importance of including this in the school curriculum. We started very early in kindergartens, primary schools and secondary schools."

– Cheng Yan-chee,
Chief Corporate Affairs Officer and Executive Director, Mandatory Provident Fund Schemes Authority

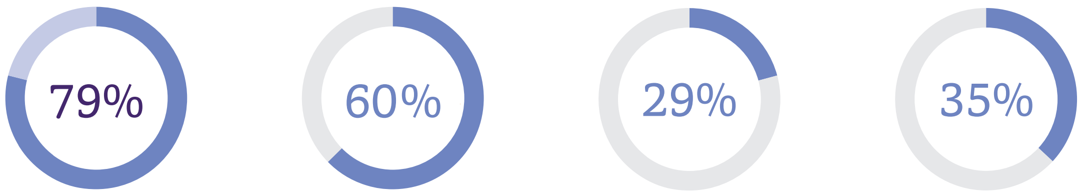
"Our study shows that the return on investment for education is very low. Education doesn't generally change behavior. Education coupled with tools that allow people to execute on what they just learned immediately is powerful. One without the other is not."

– Julio Portalatin,
President and CEO, Mercer

"There needs to be a definition of goal and target, and therefore some advisory element to it for which people may need to be prepared to pay for independent advice."

– Alfred Yip,
Head of Pensions, The Hongkong and Shanghai Banking Corporation

WHAT CHANGES DO YOU RECOMMEND FOR THE RETIREMENT SAVINGS SYSTEM?



Tax incentive for voluntary contributions | Higher mandatory contribution rate | More investment choices | Mandatory annuitization

DESIGN SMART SYSTEMS TO HELP ENSURE ADEQUATE SAVINGS

Given the many things competing for an individual's paycheck and the lure of immediate satisfaction over long-term security, voluntary contributions to long-term savings simply may never be enough. In fact, the pension systems that are among the highest ranked in terms of adequacy, sustainability and integrity — including those of Denmark, Netherlands and Australia, according to the annual Melbourne Mercer Global Pension Index — are designed to make savings contributions compulsory, both on the part of individuals and of employers on behalf of their employees.

"Other changes are probably needed, in the sense that the current platform is catering for accumulation or asset savings. And it was only a year and a half ago that we introduced phased withdrawal. With the problem of aging population, more and more people will be living in retirement. And therefore, what type of platform and what type of products we put on that platform, will also be important. On top of annuity, other protections, other investment products which are catered for paying out dividends or cash payments, for example, will need to be there. My suggestion is that we put those products on the same platform so that whenever you want to retire, you actually make that transition much more smoothly and more easily. Otherwise, when you ask people after they have taken out a lump sum to put it back, the conversion rate is probably going to be much more dismal."

– Alfred Yip,
Head of Pensions,
The Hongkong and Shanghai Banking Corporation

"We first advocate around some way to put in a voluntary contribution platform where we have multiple products. Second, we figure out the incentives among employers for changing with the MPF, where we would enable retirement to be more integrated with people's life paths."

– Vanessa Wang,
Chair, The Hong Kong Retirement Schemes Association

"I think we should propose certain tax-incentive arrangements and raise anything we think is good for the general public in preparing for their retirement. People don't like being forced to contribute more, so make it voluntary, and do as much as possible to incentivize voluntary contributions."

– Cheng Yan-chee,
Chief Corporate Affairs Officer and Executive Director, Mandatory Provident Fund Schemes Authority

CONTACT US FOR MORE INFORMATION

Rendzina Cheung
T: +852 2301 7569
E: rendzina.cheung@mercer.com

Cheung Chun Man
T: +852 3476 3931
E: chun.man.cheung@mercer.com