

Submission in response to Public Engagement Exercise on Retirement Protection

Overview of IEC's comments

The retirement protection system spells out the roles of the different pillars that serve elderly groups during their retirement. However, the system alone is not sufficient to protect people against the risk of poverty in old age. An individual needs a certain level of financial literacy to make informed financial decisions for retirement throughout their working life. Hence, the enhancement of retirement protection system must be accompanied by corresponding financial education.

Research indicates that the vast majority of the population lacks the knowledge and skills required to plan for their retirement. As an impartial financial educator, we see a pressing need to improve Hong Kong people's financial capabilities and to empower them to prepare better for their retirement, especially given that the number of retirees is increasing.

From our analysis, the IEC has identified a number of financial education opportunities in different areas of the retirement protection system, in particular MPF investments and voluntary savings. There is also a great need for the public to gain a holistic understanding of retirement planning, rather than just the impact of each pillar on an individual's retirement. Therefore, we advocate a thorough financial education programme on preparing for retirement.



IEC's detailed comments

1. Hong Kong people's readiness for retirement

In a research paper published in 2014 by IEC, *Knowledge, attitudes and behaviours toward money and debt management*, setting a retirement financial goal was not among the top priorities for most Hong Kong people until they were close to retirement¹. Even with a retirement goal in mind, only one out of every five respondents had calculated how much they needed for retirement.

In other IEC research from 2015, it was found that only some 40% of those earning an income had monthly saving habits. This figure was substantially lower (15%) among younger working adults. With no active savings, they miss out on the benefits of compound interest.

The consistent low-interest environment poses challenges for savers who wish to grow their wealth and has thus whetted their appetite for other financial products. When IEC

¹ In the research paper [Knowledge, Attitudes and Behaviour towards Money and Debt Management](#) published by IEC in 2014, 24% of the respondents (of which 36% were 50 to 64 years of age) considered a financially secure retirement to be one of their financial goals.



surveyed Hong Kong adults in January 2014, 33% indicated they had invested in stocks and less than 10% owned other investment products, such as bonds and mutual funds². Meanwhile, more than one-third of investors expected an annual return of over 20% on their investments. With this in mind, concern has grown over whether many Hong Kong people have sufficient financial literacy to prepare for their retirement.

Growing life expectancies and increasing healthcare expenses are also risks that need to be considered in retirement planning. In 2013, about 50% of Hong Kong people were covered by medical insurance, with about one-third relying solely on the coverage provided by their employers³; however, once they retire they will have to bear their own medical expenses. In 2015, IEC research found that less than 30% of working adults and retirees had purchased critical illness insurance.

2. The importance of financial education for retirement planning

As a public organisation dedicated to improving financial literacy in Hong Kong, we strongly support any initiatives that create awareness of the importance of retirement planning or that provide tools and solutions to help people calculate their financial needs after retirement. However, it is not just a matter of providing people with information; it is essential that these initiatives motivate people to establish positive attitudes and ideal behaviours towards retirement planning.

In 2015, when IEC reviewed the landscape of financial education initiatives in Hong Kong, it was found that among 661 financial education initiatives studied only 13% were focused on retirement planning. Financial education on the key elements of a retirement plan, such as MPF, insurance and investment, were provided separately by some organisations, mainly in the finance sector. As a result, Hong Kong people lack opportunities to learn about their retirement needs and how to plan for them systematically.

We believe that financial education for retirement planning should span a person's lifetime and start as early as possible. In this regard, financial education for retirement planning needs to be tailored and made relevant to specific audiences' knowledge and experiences. If possible, it should be provided during moments that present opportunities for learning, e.g. when there is a change in the MPF system or employee benefits.

3. Public Education – holistic financial education for retirement planning

We agree with the CoP's view that it is necessary to increase public education related to retirement protection.

Within the retirement protection system, there are many areas that support retirement — social welfare, housing, medical, financial products, labour, family and community support — all of which require corresponding financial education. For the ageing population, all these areas are interrelated and may warrant a more holistic policy to address retirement issues.

In this regard, we would like to see a holistic public policy on retirement to oversee the specific needs of those planning for retirement and retirees. Under such a policy, coordinated strategies would be formulated to effectively allocate social resources and foster collaboration among different stakeholders in society, including the provision of financial education on retirement planning for different groups of Hong Kong people.

² In the research paper, [Knowledge, Attitudes and Behaviour towards Money and Debt Management](#), published by IEC in 2014, 45% of the respondents indicated they had invested in the financial market in the past 12 months, of which 74% held or traded stock and 22% and 8% invested in funds and bonds respectively.

³ In the [Thematic Household Survey Report No. 50](#) issued by the Census and Statistics Department, HKSAR Government, in January 2013, 46.3% of the total population were entitled to medical benefits provided by employers / companies or covered by medical insurance purchased by individuals, or had both kinds of medical protection. Among these, 30.6% were entitled to medical benefits from employers / companies only.



4. Financial education needs of individual pillars

A number of measures were proposed in the Consultation Paper to strengthen or enhance the pillars in the retirement protection system. We list the financial education needs of each pillar below:

a. The second pillar – MPF

MPF is one of the core focuses of financial education for retirement planning. The consultation paper on the default investment strategy (DIS) in 2014 indicated that “many MPF scheme members do not take an active role in managing their MPF investment, many are confused about investment choice and many do not feel that they have adequate financial knowledge to make investment decisions.”⁴

We consider the launch of the DIS to be a significant moment for working adults to increase their financial knowledge. The following financial education issues under the DIS should be reinforced so that people planning for their retirement can:

- understand basic investing concepts, including risk and return, risk diversification, and risk tolerance at different life stages;
- recognise that saving for retirement requires long-term investing;
- understand stock and bond investment;
- know the impact of fund fees on investment return over the long run;
- understand members’ right to opt-out from the DIS and make their own investment choices;
- be aware of members’ responsibilities for managing their MPF investments; and
- recognise that MPF is only one part of an individual’s retirement reserve.

b. The third pillar – voluntary savings

We support policies that encourage people to make additional savings for themselves and their families in order to maintain a basic living standard after retirement.

As mentioned in the above paragraphs, in general Hong Kong people are keen to invest in stocks but fail to diversify the investment portfolio. Even before the introduction of a public annuity scheme or new wealth management products for retirement to encourage voluntary savings, it is important that Hong Kong people know:

- the features of different types of investment vehicles and their underlying risks;
- how to choose appropriate financial products based on suitability;
- the importance of adequate protection against potential financial losses; and
- their rights and responsibilities as a financial consumer in dealing with financial intermediaries under different regulatory regimes.

Our aim is to empower Hong Kong people to make sound financial decisions, especially with regard to saving for retirement.

c. The fourth pillar – public services, family support and personal assets

The number of older single people is growing. Current population estimates expect that there will be more than 140,000 single persons from age 50 to 64 in 2029⁵.

Although family support is encouraged in the retirement protection system, there are

⁴ Extracted from the consultation paper [Providing Better Investment Solutions for MPF Members](#) issued by the Financial Services and the Treasury Bureau and Mandatory Provident Fund Schemes Authority in June 2014.

⁵ [“Hong Kong Domestic Household Projections up to 2049”](#) issued by the Census and Statistics Department, HKSAR Government, January 2013



challenges associated with diminishing domestic household sizes. The following financial education topics are needed for this group:

- the possible need to add family support into an individuals' personal budget;
- evaluation of the ability of younger family members to support retired people;
- prudent management of the lump sum of retirement benefits, other personal savings and assets, and various financial products to support retirement living expenses; and
- vigilance against financial scams, especially those targeting asset-rich elderly people.

d. "Regardless of rich or poor" or "those with financial needs" principle

Both principles are intended to alleviate poverty among the elderly by providing support to meet their daily needs. Individuals should be aware that both options cannot fully support one's retirement expenses, and thus it is always important for individuals to have multiple sources of funds for their retirement. It is essential to equip people with the financial capabilities required to maintain a level of financial self-reliance during retirement.

5. Hong Kong Strategy for Financial Literacy

In November 2015, a coherent financial literacy strategy — the [Hong Kong Strategy for Financial Literacy \(HKSFL\)](#) — was launched. This strategy sets out for the first time a clear direction for financial literacy and provides a practical framework for actions across the government, finance, education and community sectors. The vision is to empower the people of Hong Kong to make informed and responsible financial decisions for themselves and their families, including retirement planning. The three strategic objectives of the strategy are to:

- a. raise awareness of the benefits of financial education;
- b. extend opportunities to learn; and
- c. enhance coordination and collaboration among stakeholders.

As the Secretariat for the HKSFL, IEC acts as the public point of contact for stakeholders in the community and the coordinator for financial education initiatives, including financial education for retirement planning, in society.

In conclusion, please note that the IEC is ready and willing to play its part to increase financial literacy and assist the people of Hong Kong in planning for their retirement. Once the results of this public consultation are clear, we would welcome the opportunity to discuss the matter further with interested parties.