



The British  
Chamber of Commerce  
in Hong Kong  
香港英商會

Labour and Welfare Bureau (Retirement Protection Public Engagement Exercise)  
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Dear Sir/Madam

I attach the response of the British Chamber of Commerce in Hong Kong to the public consultation on Retirement Protection. Please contact me if you need any further information about this response.

I would be grateful for confirmation of receipt of this response.

Yours faithfully

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## Public Consultation on Retirement Protection: Response of The British Chamber of Commerce in Hong Kong

### **Executive Summary**

*British Chamber welcomes this consultation but believes the current range of options will not fully address the critical issue of providing for an adequate level of retirement protection, particularly given Hong Kong's ageing population and the current inadequate level of private retirement savings.*

*We believe a broader more holistic strategy is necessary. Within this, that extra government funding for retirement protection should best be focused on those in need; that the MPF has a central role to play but needs further significant reform, including review of the offset arrangements, mandating/incentivising higher contribution rates, and the possibility of personal pension/MPF numbers and full portability of accounts, to help tackle leakage from accounts.*

*But as part of this strategy, a broader range of policy options should be considered, including items such as raising of the retirement age, the introduction of government backed pension bonds. And that further consideration is needed of longer term trends – including in Hong Kong's workforce, and the impact of an era of low investment returns – which seem likely to further exacerbate the outlook.*

### **Introduction**

The British Chamber of Commerce is one of Hong Kong's largest international business organisations. The Chamber has a broad membership of British, Hong Kong, Chinese and international companies, from the biggest multinationals to small start-up companies, and including a large number of SMEs. The Chamber includes some of Hong Kong's biggest private sector employers.

The British Chamber welcomes the Commission on Poverty's efforts in engaging the community on retirement protection in this public consultation exercise. We recognise the significant challenges posed by our rapidly ageing society as well as the moral imperative to protect the most vulnerable in society, so that all elderly residents in Hong Kong are able to live in dignity and without discomfort.

The consultation document sets out comprehensively the problems of an ageing population and of the inadequacy of the current arrangements. We feel the document is weaker in its consideration of options and a strategy for tackling this, a situation exacerbated by Hong Kong coming later to consideration of these issues than other comparable developed economies (e.g. Singapore).

The consultation paper concentrates significantly on the issue of publicly – funded retirement protection, and within this presents two detailed options: a universal flat-rate pension or a means-tested scheme, with treatment in the paper very heavily weighted in favour of the latter. We comment further below on that specific issue. However the Chamber strongly believes that consideration of this needs to be set in the context of a more holistic and strategic approach to the broad question of retirement protection, and with consideration of a wider range of options, which taken together, could help Hong Kong cope better with the responsibilities of an increasingly ageing population.

We would hope that government can further consider a broader approach to retirement protection and that the following views and suggestions may help in preparing a revised approach for further public consultation.

### **A five-pronged approach**

As a contribution to this debate, the Chamber suggests that further consideration be given to the following policy areas, so as to provide elements of a more rounded strategic approach:-

#### *(i) Deferring Retirement*

- Relaxing and/or raising the retirement age, so as to reflect greater longevity, health improvements and the prospect of a longer working life. This is already common practice in many overseas economies. In Singapore it is now 62 but with tax incentives for continued employment to 65. State Pension ages in the UK and Australia are now rising beyond 65.
- Strengthening the opportunity for part-time work, beyond the 'standard' retirement age, given that people now generally live longer and healthier lives.
- Supporting these two initiatives will need education programmes and proactive engagement with employers. Financial support for employers retaining or employing staff beyond 'normal' retirement age (with extra tax allowances) may also be needed, in the same way that tax incentives are often provided overseas to employers who take on young people.
- Although birth rates in Hong Kong are low and many new parents do return to work, providing incentives for those who have taken a career break to raise a family to rejoin the workforce may also help.

#### *(ii) Better Preparation for Retirement*

- There is a huge need for better public education on the need for proper retirement provision and on the considerable requirement for self-reliance, rather than on the State or on children to fund this. This should include the size of savings needed at retirement to fund daily living expenses well in to the 80s.
- There is no 'one size fits all' approach which is likely to prove successful in developing satisfactory retirement provision. A segmented approach is likely to be necessary – depending on age, income and other factors such as whether the person pays tax or not.
- Contribution levels in Hong Kong are very low by comparison with other developed economies. Contribution levels, by both the employee and the employer, need to be raised progressively to move closer to the international norm. This is especially important in the longer term as investment returns in the 2010s and 2020s look set to be much lower than those in the 1980s or 1990s.
- Government needs to find ways to encourage additional voluntary contributions by employees (and perhaps employers) especially at two points in a typical working life – early in the working career when contributions will have the longest period over which to generate a return and closer to retirement when the need for 'top-ups' becomes more readily apparent.

Tax incentives or credits are important but government needs to look at other incentives to encourage non-taxpayers (the majority of the population) to contribute, perhaps through the ability to purchase exclusive higher rate bonds or through other schemes.

- There is anecdotal evidence of the problem of employees being able to access 'retirement' savings before retirement. Consideration needs to be given to some kind of 'National Insurance' or 'Pensions' personal identity number which can be linked to such savings, so that these cannot be withdrawn or misrepresented before retirement. Such an identifier could also act as a vector for allocating tax or other benefits to help better grow individual retirement provision.

(iii) Retirement Schemes: MPF

- The public reputation of the MPF scheme is poor. However in concept it is sound and it is a vital pillar of overall retirement protection. But crucially, overall levels of contribution are insufficient to provide adequate level of retirement income, especially for lower paid workers.
- We welcome the Government's proposed reform of the MPF with, for example, the introduction of low-cost default options. Elements such as greater simplicity and greater transparency, including of fees, are also important, not only to enhance performance but also to improve public perception.
- But further reforms may be necessary if contribution rates are to increase to the levels necessary, with options including the gradual progressive raising of mandatory contributions; and, as noted above, the further incentivising (e.g. through tax allowances) of voluntary contributions. The government may also wish to consider stepping in to top up the contributions of the lowest paid.
- The Consultation Paper highlights the current offsetting arrangement with the MPF scheme in regards to long service and severance pay. The Chamber does not believe the current offsetting arrangements are compatible with the MPF's primary role as a retirement saving scheme. But transitional arrangements may be necessary to reduce the impact on employers, for example by phasing in of new arrangements or by government stepping in to buy out such obligations if early reform is to be initiated.
- We agree with the proposal in the consultation document that the issue of personalising MPF accounts to allow their full portability needs to be addressed.
- Whatever schemes or vehicles are used to hold retirement savings, there is widespread concern about 'leakage' from these, either when retirement is taken, or when there are changes in employment status. Consideration should therefore be given to 'preserved' status for savings, preventing withdrawal except in a narrow range of circumstances and on the need for at least a proportion of savings to be converted into long term regular income payments during retirement, whether as an annuity or through the purchase of special bonds. Further work, involving the finance sector, is urgently needed in this area.

(iv) Publicly funded Retirement Protection

- Government seems to have put off key decisions on the issue of publicly funded retirement protection for many years. Successive Administrations since the 1990s have failed to tackle the looming gap in retirement provision held by most people in Hong Kong.
- With respect to the two options presented in the paper, many elderly people have no need of government aid to ensure adequate living standards in retirement. Universal provision does therefore not seem a good use of additional public funds available for retirement protection. And we recognise the fiscal impact of providing an adequate level of public retirement funding to all elderly people, irrespective of need.
- On the other hand, a very narrow definition of state-aided provision, given the stigma associated with the CSSA scheme, is also not ideal. We support the principle that additional government funding should go to those who need it, and to those whose living standards can be materially improved. Government might however wish to consider a broader range of options for consultation, going beyond the current binary approach, including for example higher income/asset thresholds, so as to increase public acceptability of a more targeted scheme.
- It is widely accepted that the bond market in Hong Kong would benefit from further development. 'I-Bonds' or 'Silver Bonds', (eg government –issued 30 year bonds) could have an important role to play not only in helping with recurrent government funding for greater levels of retirement protection but also for employees (and perhaps employers) to help fund their own retirement obligations.
- Notwithstanding the above, some pump-priming of provision (gradually funded from budget surpluses or a one-off contribution) from government is now perhaps necessary, given the fact that successive Administrations have been slow to act to improve provision for the last twenty years.

(v) Planning for the Longer Term

- Not included within the consultation document, a clear action plan is needed to prevent the current 'baseline' from continuing to deteriorate. Future circumstances are likely to be even more challenging than the present. As noted above, the Chamber believes action is needed now but we also recommend that planning begins soon to consider the following future trends and that government works with both the business sector and the wider community to develop additional relevant policy options.
  - Steadily increasing longevity is likely in Hong Kong
  - Our population growth is likely to peak in the 2030's, perhaps earlier than current forecasts
  - Declining birth rates, which is likely to mean fewer working age contributors to tax and other government revenues
  - Slowing economic growth and a generally lower set of returns for money invested in retirement schemes means returns going forward are unlikely to equal those seen in the 1980's or 1990's.
  - Changes in the nature of work – fewer 'employees' with employers contributing to MPF and other retirement schemes: more part-time, contract and self-employment
  - Increasing challenges for healthcare expenditure on the elderly – the need for more self-funding – a huge task just as with retirement protection

- The need for better information/data provision on 'leakage' and other issues which may make retirement provision less effective

### **Summary**

In summary, the Chamber believes that a broader and more holistic set of measures is needed to meet the challenge of the retirement needs of Hong Kong's ageing population. Our suggestions, we believe, highlight some of the areas and approaches which government might consider as part of this. A valuable first step would be to launch a more intensive public debate around the broader issues and then aim to further consult the community no later than next year or more specific policy options to address these. In parallel, a much more intensive and integrated public education campaign on the increased need for retirement provision (and on the sums likely to be needed for a reasonable retirement), together with the importance of self-reliance for the bulk of funding is also necessary.