

HONG KONG CHINA



DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (EUR bn)	1 678
GDP per capita (USD)	30 872
Population (000s)	6 982
Labour force (000s)	3 649
Employment rate	96.43
Population over 65 (%)	11.7
Dependency ratio ¹	22.5

Data from 2008 or latest available year.
 1. Ratio of over 65-year-olds the labour force.
 Source: OECD

COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- The Social Security Allowance (SSA), including two types of old age allowance, i.e. Normal Old Age Allowance and Higher Old Age Allowance
- Comprehensive Social Security Assistance (CSSA)
- Civil servants are covered by 3 different schemes applicable to people whose employment starts in different years, i.e. the Old Pension Scheme, the New Pension Scheme, and the Civil Service Provident Fund

Private pensions: occupational (mandatory)

- It is often referred to as the Mandatory Provident Fund (MPF) and was introduced in 2000
- This is a funded individual DC account, covering employees and self-employees in both public and private sectors

Private pensions: occupational (voluntary)

- It is often referred as the Occupational Retirement Scheme Ordinance (ORSO), and both DC and DB exist
- It operated before introduction of the MPF and is allowed to continue after 2000

Source: OECD Global Pension Statistic.

PENSION FUNDS DATA OVERVIEW

	2001	2002	2003	2004	2005	2006	2007	2008
Assets								
Total investments (National currency millions)	190,919	215,928	227,549	298,686	343,614	410,653	503,723	469,147
Total investments, as a % of GDP	14.69	16.90	18.43	23.12	24.85	27.82	31.17	27.95
Of which Assets overseas, as a % of Total investment:								
• Issued by entities located abroad	ND	44.45	40.42	52.10	52.89	52.08	50.79	52.03
• Issued in foreign currencies	ND	ND	ND	ND	ND	ND	ND	ND
By financing vehicle (as a % of Total investments)								
• Pension funds	99.13	99.43	99.53	99.65	99.71	99.77	99.75	99.66
• Book reserves	NA	NA	NA	NA	NA	NA	NA	NA
• Pension insurance contracts	0.87	0.57	0.47	0.35	0.29	0.23	0.25	0.34
• Other financing vehicle	NA	NA	NA	NA	NA	NA	NA	NA
By pension plan type								
• Occupational assets	190,919	215,928	227,549	298,686	343,614	410,653	503,723	469,147
• % of DB assets	35.61	33.60	30.06	24.87	23.11	21.07	20.42	23.83
• % of DC (protected and unprotected) assets	64.39	66.40	69.94	75.13	76.89	78.93	79.58	76.17
• Personal assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Structure of Assets (as a % of Total investments)								
Cash and Deposits	ND	14.89	17.43	16.78	15.92	16.74	12.42	14.74
Fixed Income	ND	28.33	30.79	31.62	28.39	25.07	26.08	28.92
Of which:								
• Bills and Bonds issued by the public and private sector	ND	28.33	30.79	31.62	28.39	25.07	26.08	28.92
• Loans	ND	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares	ND	50.37	46.91	46.51	47.03	50.62	53.81	45.49
Land and Buildings	ND	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Investments	ND	6.41	4.87	5.10	8.66	7.57	7.69	10.85
Contributions and Benefits								
Total Contributions, as a % of GDP	ND	3.46	3.19	3.26	3.06	2.98	2.91	2.99
• Employer Contributions, as a % of Total contributions	ND	ND	ND	ND	ND	ND	ND	ND
• Employee Contributions, as a % of Total contributions	ND	ND	ND	ND	ND	ND	ND	ND
Total Benefits, as a % of GDP	ND	ND	ND	ND	ND	ND	ND	ND
• % of benefits paid as a Lump sum	ND	ND	ND	ND	ND	ND	ND	ND
• % of benefits paid as a Pension	ND	ND	ND	ND	ND	ND	ND	ND
Membership (in thousands of persons)¹								
Total membership	2,747	2,670	2,625	2,696	2,794	2,868	2,886	2,903
• % of Active membership	ND	ND	ND	ND	ND	ND	ND	ND
Of which: % of Deferred membership	ND	ND	ND	ND	ND	ND	ND	ND
• % of Passive membership	ND	ND	ND	ND	ND	ND	ND	ND
Other beneficiaries	ND	ND	ND	ND	ND	ND	ND	ND
Number of Pension Funds/Plans								
Total number of funds	ND	ND	ND	ND	ND	ND	ND	ND
Total number of plans	9,860	8,825	8,318	8,010	7,800	7,688	7,483	7,260

Note: Data refer to both ORSO and MPF plans.

1. Membership figures reflect 'membership' rather than 'people'. Therefore a person may be a member of more than one types of plan at any one time, particularly if the person has a number of employments in the year.

ND = data not available

NA = data not applicable

Source: OECD, Global Pension Statistics

HONG KONG CHINA: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

Public pensions in Hong Kong - solely financed by the government, have two components. The Social Security Allowance (SSA) regime has two parts, i.e. a lower-rate allowance and a higher-rate allowance, while the second component, the Comprehensive Social Security Assistance (CSSA) Scheme, provides assistance to those pensioners who cannot support themselves financially.

To be eligible for an allowance under the SSA scheme and assistance under the CSSA Scheme, a person must meet the residence requirements. He/she must have been a Hong Kong resident for at least seven years; and must have resided in Hong Kong continuously for at least one year immediately before the date of application.

Under the SSA Scheme, there are two types of old age allowance: Normal Old Age Allowance and Higher Old Age Allowance. The Normal Old Age Allowance, at a rate of HK\$625 per month, is available for application by a person who is aged 65-69 and has an income and assets below the prescribed limits. To receive lower-rate allowance at HK\$ 625 per month, residents should be aged 65 to 69 with 7 years of residence (requirements waived for persons who became Hong Kong residents before 1 January 2004) and 1 year of residence immediately before claiming the benefit. To receive higher-rate allowance at HK\$ 705 per month, residents should be aged 70 or older with other requirements the same as lower-rate allowance. The Higher Old Age Allowance, at a rate of HK\$705 per month is available for application by a person who is aged 70 or above.

To be eligible for assistance under the CSSA Scheme, a person must pass the income and asset tests. The standard rates for an eligible applicant who is aged 60 or above range from HK\$2,305 to HK\$3,930 per month. For an elderly living with family members, the assistance will range from HK\$2,175 to HK\$3,605 per month.

Civil servants

The Hong Kong Government currently operates two statutory, non-contributory pension schemes for civil servants who are serving on pensionable terms. The Old Pension Scheme ("OPS") applies to pensionable civil servants who were appointed before 1 July 1987. The New Pension Scheme ("NPS") is applicable to pensionable civil servants who were appointed between 1 July 1987 and 31 May 2000, and those who were appointed before 1 July 1987 but had exercised their option to join the scheme before 31 December 1995 or the specified option deadline. Pension is normally granted to a civil servant when he/she retires from the service. A civil servant's pension is calculated on the basis of his/her salary, length of service and pension factor under the respective pension schemes according to the prescribed formulae in the pension legislation. A civil servant may choose to commute a certain percentage of his pension into a lump sum pension gratuity. The remaining part of the pension will be payable to the civil servant on a monthly basis until he/she passed away.

The Civil Service Provident Fund ("CSPF") Scheme is the retirement benefits system for those who joined the civil service on new entry terms on or after 1 June 2000 and when they progress onto new permanent terms. It is set up under the Mandatory Provident Fund Schemes Ordinance ("MPFSO").

OCCUPATIONAL MANDATORY

Coverage

Public and private-sector employees and self-employed persons aged between 18 and 65 must become members of a provident fund scheme. This obligation applies employees who have been employed for 60 days or more under an employment contract, and casual employees or catering and construction industries regardless of their duration of employment.

Contributions

Both the employer and employee contribute 5% of the employee's salary up to the limit of HKD 20,000 per month for each. Employees earning less than HK\$50,000 a month do not need to contribute but their employers are still required to contribute 5% of the employee's income. The self-employed must also contribute 5% of their relevant income.

Benefits

Benefits are DC based and depend on both employee and employer contributions plus accrued investment returns. Benefits are paid as a lump sum at retirement, and retirees are not required or able to buy an annuity.

Taxation

Contributions, investment and benefit payment are all tax exempted, although subject to the limit on employer contribution at 15% of payroll, and on employee contribution at HK\$ 12,000 per year.

OCCUPATIONAL VOLUNTARY

Coverage

ORSO schemes, which are voluntary occupational schemes, have been operating before the introduction of the MPF system in Hong Kong (China). After the MPF was introduced in 2000, employees who are members of ORSO schemes to which MPF exemption is granted are exempted from joining MPF schemes. MPF exemption is granted to ORSO schemes as long as they meet certain criteria.

Contributions

Contribution levels are not governed by legal rules. The rate/amount of contributions is specified in the individual governing rules of the ORSO scheme. Employer contributions are usually between 5% and 15% of salary, while the employee usually contributes at the rate of 5% of salary.

Benefits

Both DB and DC modes are available, and the payment is usually in the form of a lump sum payable upon termination of service, death or retirement.

Taxation

Employee contributions under MPF-exempted ORSO schemes are entitled to have tax relief up to HK\$ 12,000 per year, while employer contributions are tax deductible up to 15% of payroll. Investment returns are not subject to profits tax, while pension benefits are subject to salaries tax. Lump sum withdrawals are however tax-free.

MARKET INFORMATION

Occupational mandatory

Largely due to the reason of being mandatory, the coverage rate of the MPF system is around 68% of the employed population, which was equivalent to 2.3 million employees as of 30 September 2006. As of 30 September 2006, the MPF system accumulated assets exceed to HK\$ 200 billion, with 231,000 participating employers. Meanwhile, the total number of registered schemes was 41, constituent funds 313 and approved pooled investment funds 283. It is estimated that the 5 largest MPF providers (HSBC+Hang Seng, Manulife, AIA/JF, BOC/Prudential, and Bank Consortium Trust) account for over 70% of the whole market. The employer chooses the provider. The employee chooses the pension fund. In terms of asset allocation, the most popular choice is the balanced fund (i.e. medium risk and medium return portfolio), comprising over 51% of the total MPF assets as of 2006. The overall annualised return of the MPF funds over 2001-2006 was 6.99%, which is calculated net of fees and charges. The MPF schemes charged a fee ranging from 0.91% to 2.33% of the assets. The average fund-expense ratio of MPF funds is around 2% of the assets.

Occupational voluntary

As of 30 September 2006, there were 7,702 ORSO schemes, and in respect of ORSO registered schemes, the number of participating employers and employees amounted to 8,728 and 511,000 respectively, with assets being HK\$ 210 billion.

REFERENCE INFORMATION

KEY LEGISLATION

1995: Mandatory Provident Fund Schemes Ordinance
It provided for the establishment of the Mandatory Provident Fund Schemes Authority (MPFA).

KEY REGULATORY AND SUPERVISORY AUTHORITIES

Mandatory Provident Fund Schemes Authority (MPFA)
<http://www.mpfa.org.hk/eindex.asp>





