

IOPS COUNTRY PROFILE: HONG KONG, CHINA

DEMOGRAPHICS AND MACROECONOMICS

GDP per capita (USD)	48,958
Population (000s)	7,486
Labour force (000s)	3,979
Employment rate	97.2
Population over 65 (%)	17.3
Dependency ratio ¹	32.7

Data from 2018.

1. Ratio of over 65-year-olds / labour force.

Source: OECD, various sources.

HONG KONG, CHINA: JURISDICTION PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- The Social Security Allowance (SSA), including two types of old age allowance, i.e. the Old Age Allowance and the Old Age Living Allowance
- Comprehensive Social Security Assistance (CSSA)
- Civil servants are covered by three 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 Scheme

Private pensions: Occupational (mandatory)

- It is often referred to as the Mandatory Provident Fund (MPF) System and was introduced in 2000
- The MPF system is fully-funded, employment-based defined contribution (DC) system, covering employees and self-employed persons

Private pensions: Occupational (voluntary)

- It refers to schemes voluntarily set up by employers to provide benefits to their employees upon termination of service, death and retirement. These schemes are registered under the Occupational Retirement Schemes Ordinance (ORSO). Both DC and defined benefit (DB) schemes exist.
- It has been operating before the introduction of the MPF system and is allowed to continue to operate after 2000.

Source: OECD Global Pension Statistic

HONG KONG, CHINA: PENSION FUNDS DATA OVERVIEW

	2011	2012	2013	2014	2015	2016	2017	2018
Assets								
Total investments (National currency millions)	618,484	701,392	798,960	854,859	893,230	954,518	1,158,663	1,164,956
Total investments, as a % of GDP	31.97	34.43	37.36	37.83	37.24	38.32	43.51	40.98
Of which Assets overseas, as a % of total investment:								
• Issued by entities located abroad	48.80	47.14	47.27	45.81	45.46	46.78	46.04	44.68
• Issued in foreign currencies	ND	ND	ND	ND	ND	ND	ND	ND
By financing vehicle (as a % of total investments)								
• Pension funds	99.77	99.82	99.83	99.84	99.85	99.87	99.89	99.88
• Book reserves	NA	NA	NA	NA	NA	NA	NA	NA
• Pension insurance contracts	0.23	0.18	0.17	0.16	0.15	0.13	0.11	0.12
• Other financing vehicle	NA	NA	NA	NA	NA	NA	NA	NA
By pension plan type								
• Occupational assets	618,484	701,392	798,960	854,859	893,230	954,518	1,158,663	1,164,956
• % of DB assets	17.08	14.39	13.81	12.16	12.39	11.70	9.75	11.03
• % of DC (protected and unprotected) assets	82.92	85.61	86.19	87.84	87.61	88.30	90.25	88.97
• Personal assets	NA	NA	NA	NA	NA	NA	NA	NA
Structure of Assets (as a % of Total investments)								
Cash and Deposits	13.33	13.27	12.91	13.08	12.58	12.53	11.50	13.55
Fixed Income	25.65	24.75	22.67	21.74	22.36	22.66	20.93	24.26
Of which:								
• Bills and Bonds issued by the public and private sector	25.65	24.75	22.67	21.74	22.36	22.66	20.93	24.26
• Loans	ND	ND	ND	ND	ND	ND	ND	ND
Shares	55.01	57.44	60.46	61.08	60.64	59.87	63.44	57.53
Land and Buildings	ND	ND	ND	ND	ND	ND	ND	ND
Other Investments	6.01	4.55	3.96	4.11	4.42	4.95	4.14	4.65
Contributions and Benefits								
Total Contributions, as a % of GDP	3.02	3.22	3.38	3.44	3.61	3.91	3.44	3.34
• 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	2 985	3 001	3 094	3 099	3 133	3 162	3 158	3 203
• % 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/Schemes								
Total number of funds	ND	ND	ND	ND	ND	ND	ND	ND
Total number of schemes	5 408	5 265	5 144	4 974	4 762	4 616	4 426	4 229

Note: Data refer to both ORSO and MPF schemes.

1. Membership figures reflect "membership" rather than "people". Therefore, a person may be a member of more than one types of scheme 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 PENSIONS

Public pensions in Hong Kong, which is non-contributory and solely financed by the government, have two components: the Social Security Allowance (SSA) Scheme and the Comprehensive Social Security Assistance (CSSA) Scheme.

The SSA covers the Old Age Allowance (OAA) and the Old Age Living Allowance (OALA), which offer a monthly cash allowance to eligible elders for meeting special needs arising from old age. The OAA is non-means-tested and covers elders aged 70 or above who have been a Hong Kong resident for at least seven years. Its monthly rate is HKD 1,385 starting from 1 February 2019. The OALA is a means-tested scheme, which targets at elders aged 65 or above with monthly income and assets not exceeding the prescribed limits.¹ The monthly rates for Normal OALA and Higher OALA are HKD 2,675 and HKD 3,585 respectively starting from 1 February 2019.

Although not specifically intended for the elderly, the CSSA provides a safety net of last resort for the elders who are unable to support themselves financially to meet their basic needs. To be eligible for assistance under the CSSA Scheme, an applicant must have held the Hong Kong resident status for not less than one year and pass the asset and income tests. The monthly standard rates for applicants aged 65 or above range from HKD 3,585 to HKD 6,095 for a single person, and from HKD 3,375 to HKD 5,590 for elders living with family members.

Civil servants

The Government of the Hong Kong Special Administrative Region 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 pensionable civil servant when he/she retires from the service. A pensionable 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 pensions legislation. A pensionable civil servant may choose to commute a certain percentage of his/her 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 passes away.

The Civil Service Provident Fund (CSPF) Scheme, set up under the Mandatory Provident Fund Schemes Ordinance (MPFSO), 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.

¹ To be eligible for Normal OALA, the monthly income limit is HKD 7,970 for a single person and HKD 13,050 for a married couple; the total asset limit is HKD 343,000 for a single person and HKD 520,000 for a married couple. To be eligible for Higher OALA, the income limit is same as that for Normal OALA but the asset limit is stricter. The total asset limit is HKD 150,000 for a single person and HKD 227,000 for a married couple.

PRIVATE PENSIONS

OCCUPATIONAL MANDATORY

Coverage

Unless exempt, public and private-sector employees and self-employed persons aged between 18 and 64 need to enroll in an MPF scheme. This mandatory requirement applies to full-time and part-time employees and self-employed persons employed for a period of 60 days or more, and casual employees in the catering and construction industries regardless of their duration of employment.

Contributions

Generally speaking, employees and employers are each required to make regular mandatory contributions calculated at 5% of the employee's relevant income to an MPF scheme, subject to the minimum and maximum relevant income levels. For monthly-paid employees, the current minimum and maximum relevant income levels are HKD 7,100 and HKD 30,000 respectively. Employees and employers are not required to contribute in respect of the amount of employee's relevant income in excess of the maximum relevant income level (i.e. HKD 30,000). Moreover, employees are not required to contribute if their monthly earnings is below the minimum relevant income level (i.e. HKD 7,100) but their employers still need to make contributions for them. Self-employed persons must also make regular mandatory contributions calculated at 5% of their relevant income to an MPF scheme, subject to the same minimum and maximum relevant income levels as employees.

Employers, employees and self-employed persons may make voluntary contributions on top of their mandatory contributions.

Other than mandatory contributions and voluntary contributions, legislation has been passed to provide tax incentives for scheme members to make tax deductible voluntary contributions (TVC) starting from 1 April 2019. Employees and self-employed persons can open a TVC account in an MPF scheme which offers TVC of their own choice and make contributions directly with trustees.

Benefits

Benefits are defined contribution based and derived from employee and employer contributions as well as accrued investment returns. For retirement at the age of 65 and early retirement from the age of 60, the accrued benefits may be withdrawn in a lump sum or by instalments. Retirees are not required to buy an annuity.

Taxation

Mandatory contributions made by employees and self-employed persons are tax-deductible up to a maximum of HKD 18,000 per year. Except for the contributions made to the TVC account which are eligible for tax deduction up to the ceiling of HKD 60,000 per year², voluntary contributions are not tax-deductible.

² Effective from 1 April 2019, tax deduction is allowed for taxpayers who purchase qualifying deferred annuities or make TVC. A taxpayer may claim tax deduction for qualifying deferred annuity premiums and TVC in aggregate up to the current maximum limit of HKD 60,000 per year.

Employers can claim tax deductions for the mandatory and voluntary contributions made for their employees, to the extent that they do not exceed 15% of the employee's total emoluments.

Contributions, investment income and benefits are all tax-exempted.

OCCUPATIONAL VOLUNTARY

Coverage

The ORSO System has been in operation before the introduction of the MPF System in 2000. ORSO schemes are schemes set up voluntarily by employers to provide benefits to their employees upon termination of service, death or retirement. Employees who are members of ORSO schemes to which MPF exemption is granted are exempted from joining MPF schemes.

Contributions

The ORSO does not govern the contribution levels of ORSO schemes. The contribution rates are determined by employers and are specified in the terms of the scheme. Usually, employer contributions are between 5% and 15% of the employee's salary while employees contribute at the rate of 5% of their salary.

Benefits

For a DC scheme, the scheme member's benefits are generally subject to a vesting scale as stated in the terms of the scheme. The vesting scale specifies the percentage of the benefits derived from employer's contributions that the member is entitled to based on the number of years of service.

For a DB scheme, the scheme member's benefits are determined by a formula which usually takes into account years of service and the member's final salary.

For both DB and DC modes, benefits are usually paid in a lump sum upon termination of service, death or retirement. Additional requirements apply if benefits are paid out of an MPF-exempted ORSO registered scheme.

Taxation

Employee contributions made to an MPF-exempted ORSO scheme are tax deductible, subject to the maximum amount of HKD 18,000 per year. Employer contributions are profit tax deductible up to 15% of the employee's total emolument.

Investment income is tax-exempt. Benefits are subject to income tax with an exception of lump sum benefit payment received upon termination of service, death, incapacity, terminal illness or retirement, subject to fulfilment of certain conditions.

MARKET INFORMATION

Occupational mandatory

Largely due to its mandatory nature, the MPF System has a high coverage rate of 74% of the employed population, which was equivalent to 2.9 million employees and self-employed persons as of 31 August 2019.

As of 31 July 2019, the total assets of the MPF System were HKD 911 billion, which is 32% of Hong Kong's GDP in 2018.

In terms of asset allocation, equities are the most popular asset class, accounting for over 60% of MPF assets as of June 2019.

As of July 2019, the annualized internal rate of return of the MPF System since its inception (i.e. December 2000) was 3.9%, which is calculated net of fees and charges. As of August 2019, the Fund Expense Ratio (FER) of MPF constituent funds ranged from 0.45% to 3.39% while the overall average FER was 1.51%.

As of August 2019, 30 registered MPF schemes were available on the market with 441 constituent funds and 317 approved pooled investment funds.

Occupational voluntary

As of 31 August 2019, the total number of ORSO schemes was 4 090, of which 3 517 were registered schemes and 573 were exempted schemes. In respect of registered schemes, 360 000 employees and 5 692 employers were covered with HKD 330 billion net assets.

REFERENCE INFORMATION

KEY LEGISLATION

1992: Occupational Retirement Schemes Ordinance (ORSO); provides for the establishment of a registration system for occupational retirement schemes voluntarily set up by employers to provide benefits to their employees upon termination of service, death or retirement, ensures that such schemes are properly regulated and provides greater certainty that the benefits promised to employees will be paid when they fall due.

1995: Mandatory Provident Fund Schemes Ordinance (MPFSO); provides for the establishment of the Mandatory Provident Fund Schemes Authority (MPFA) and for the establishment and registration of Mandatory Provident Fund (MPF) schemes, defines the contribution and benefit structure under these schemes, provides for the approval of persons as trustees of these schemes, defines coverage and classes of exempt persons, and includes regulations protecting the rights of scheme members.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

Mandatory Provident Fund Schemes Authority (MPFA):
<http://www.mpfa.org.hk/eng/main/index.jsp>