IFPHK's Response to the Consultation Document Issued by the Commission on Poverty

June 2016

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IFPHK's Profile

Background

The Institute of Financial Planners of Hong Kong ("IFPHK") was established in June 2000 as a non-profit organization for the fast-growing financial industry. It aims to be recognized in the region as the premier professional body representing those financial planners that uphold the highest standards for the benefit of the public.

The IFPHK is the sole licensing body in Hong Kong authorized by Financial Planning Standards Board Limited to grant the much-coveted and internationally-recognized CFP^{CM} Certification and AFP^{TM} Certification to qualified financial planning professionals in Hong Kong and Macau.

It represents more than 6,800 financial planning practitioners in Hong Kong from such diverse professional backgrounds as banking, insurance, independent financial advisory, stockbroking, accounting, and legal services.

Currently there are more than 147,000 CFP certificants in 25 countries/regions; the majority of these professionals are in the U.S., Canada, China, Australia and Japan, with more than 4,800 CFP certificants in Hong Kong.

CFP^{CM}, CERTIFIED FINANCIAL PLANNER^{CM}, CFP^{CM}, CERTIFIED FINANCIAL PLANNER™, AFP^{TM}, ASSOCIATE FINANCIAL PLANNER^{TM}, AFP and ASSOCIATE FINANCIAL PLANNER® are certification marks and/or trademarks owned outside the U.S. by Financial Planning Standards Board Ltd. The Institute of Financial Planners of Hong Kong is the marks licensing authority for the CFP marks and AFP marks in Hong Kong and Macau, through agreement with FPSB.

IFPHK's interest in this consultation

The mission and vision of the IFPHK is to promote the importance of financial planning. Financial planning refers to the process of setting, planning, achieving and reviewing life goals through proper management of finances[1]. For IFPHK and other affiliates of the Financial Planning Standard Board ("FPSB"), the financial planning process consists of six steps that help clients take a holistic approach to assessing their financial situation[2]. A financial planner is someone who uses the financial planning process to provide a client with integrated strategies to achieve financial and life goals. A financial planner typically reviews relevant aspects of a client's situation across a large breadth of financial planning activities, which may include financial management, asset management, risk management, and tax planning, retirement planning and estate planning.

[1] www.fpsb.org
[2] The six steps include:
Step 1: Establishing and defining the relationship with the client
Step 2: Gathering client data
Step 3: Analyzing and evaluating the client's financial status
Step 4: Developing and presenting the financial planning recommendations
Step 5: Implementing the financial planning recommendations
Step 6: Monitoring

The IFPHK is the sole licensing body in Hong Kong authorised by the FPSB to grant the internationally recognised CFP^{CM} Certification and AFP^{TM} Certification to qualified financial planning professionals in Hong Kong and Macau. CFP^{CM} Certification is a world-class certification programme that tests the abilities, skills and knowledge required to competently perform financial planning tasks. In order to become a CFP^{CM} certificant, candidates must fulfill rigorous requirements in terms of education, examination, experience and ethics. To ensure that CFP^{CM} Certification is continuously relevant to the needs of the practitioners, the IFPHK and its worldwide counterparts conduct a survey regularly in order to understand financial planners' job profiles and skills. The latest global survey was conducted in 2010[3].

Retirement planning is considered an important focus among the financial topics addressed by financial planners. At present, approximately 54% of the IFPHK's financial planners are registered as MPF intermediaries. The IFPHK has always been concerned about the fast-growing ageing population in Hong Kong. As such, the IFPHK has a track record of expressing its views on potential changes that could have far-reaching effects. Here is a list of the IFPHK's submissions to Consultation Papers related to Hong Kong's healthcare and MPF systems:

Consultation Issue	**Recipient**	**Submission Period**
Consultation Document on the Voluntary Health Insurance Scheme	Food and Health Bureau	April 2015
Consultation Document on Providing Better Investment Solutions for MPF Members	Financial Services and the Treasury Bureau & Mandatory Provident Fund Scheme Authority	September 2014
Mandatory Provident Fund Authority's Consultation on Guidelines on Conduct Requirements for Registered Intermediaries	Mandatory Provident Fund Authority	July 2012
Mandatory Provident Fund Authority's Consultation Document on Withdrawal of MPF Benefits	Mandatory Provident Fund Authority	March 2012
"My Health, My Choice" Healthcare Reform Second Stage Consultation Document	Food and Health Bureau	January 2011

It is also the IFPHK's view that improved financial literacy levels will both allow consumers to make more informed investment decisions and result in a greater level of consumer appreciation regarding planning for a long-term financial future – a concept the IFPHK continuously promotes. Since its inception, the IFPHK has been striving to promote public awareness of the financial planning industry in Hong Kong. Over the past twelve years, the IFPHK has worked towards these objectives and has a track record of advocating the provision of financial education to consumers. To encourage and recognize organizations that have invested in promoting financial

[3] The survey was developed based on the identified list of tasks and knowledge, skills, and abilities. It was organized into five content categories with 212 task statements necessary for effective and efficient job performance. These statements included 5 financial planning function statements, 14 fundamental financial planning practices evaluations, 95 ability evaluations, 26 professional skills evaluations, and 72 knowledge statements.

planning education, the IFPHK introduced its first financial education award in 2012. Here is a list of the IFPHK's submitted responses to the Government's public consultation on financial education:

Consultation Issue	Recipient	Submission Period
Consultation Document on Hong Kong Strategy for Financial Literacy	Investor Education Centre	October 2015
Consultation Document on Hong Kong's Financial Competency Framework	Investor Education Centre	September 2015
Securities and Futures (Amendment) Bill 2011 - Establishment of an Investor Education Council	Bills Committee on Securities and Futures	October 2011

<u>IFPHK's representation</u>

The IFPHK was founded by 30 members (the "Founding Members") in order to raise the standards of financial planners and highlight the importance of sound financial planning advice.

The IFPHK currently has 47 Corporate Members including banks, independent financial advisors, insurance companies, and securities brokerages. With its Corporate Members providing a full spectrum of client services and products, the IFPHK is well positioned to understand the needs, concerns and aspirations of the financial planning community.

Executive Summary

The Commission on Poverty ("CoP") issued the Consultation Document (the "Consultation Paper") in December 2015 and invited comments from the public on the long-awaited proposals on retirement protection set out in the Consultation Paper. The six-month consultation period ended on 21 June 2016.

Our Principles

Issues regarding the retirement system have been heatedly debated for over five decades. We recognize that there is no one-shoe-fits-all solution, but we also feel that different members of society cannot afford to remain drastically split on the matter. Lacking a clear direction will be detrimental to both the retirement protection system and society as a whole. The IFPHK's submission is based upon the following principles that we consider important for any retirement system:

- ***Advocating the importance of financial planning and retirement planning***
  It is the IFPHK's mission to increase all external stakeholders' awareness of the importance of financial planning and receiving advice from a financial planning professional. Over the past 16 years, the IFPHK has worked towards the objective of raising public awareness of the financial planning industry and has a track record of advocating the provision of financial education to consumers. The IFPHK believes that putting CFP certificants or financial planners in direct contact with clients can help promote consumer protection by assisting them in make better-informed decisions about the products they buy. Financial planners should be encouraged to become involved in the education program to enhance public awareness and boost the industry's reputation.

- ***Enhancing financial literacy and promoting financial education***
  Notwithstanding the urgency of tackling Hong Kong's fast-growing ageing population, research shows that there is a general lack of understanding regarding financial planning, and MPF and retirement planning. The IFPHK believes that improved financial literacy levels will not only allow consumers to make more informed investment decisions, but also result in greater consumer appreciation of planning for a long-term financial future – a concept the IFPHK continuously promulgates. Financial education helps maintain transparency and confidence in the retirement system and financial system as a whole, and thereby encourages individuals to take more responsibility towards their own retirement.

- ***Maintaining a sustainable retirement protection system and healthy fiscal finance***
  According to the World Bank, the core objectives of pension systems are protection against the risk of poverty in old age and smoothing consumption from one's work life into retirement[4]. On the one hand, the Government has the responsibility to ensure basic livelihood for all retirees, and on the other, it is also responsible for maintaining healthy fiscal finance. Building a healthy and sustainable retirement protection system poses policy challenges to many governments, not just the Government of Hong Kong.

[4] World Bank (2008) The World Bank Pension Conceptual Framework. World Bank Pension Reform Series.

- ***Owing to the scarcity of resources, priority should be given to those with acute needs***
  Managing ageing requires womb-to-tomb policies addressing issues such as childcare, education, employment practices, health care and pensions. The resources of society are limited. Therefore, one of the major objectives of many retirement systems should be to provide resources for people who are poor throughout their lives and so unable to save enough for retirement.[5]

- ***Promulgating the importance of shared responsibilities on retirement protection***
  While the Government should be responsible for ensuring basic livelihood for all retirees, everybody in society should also be responsible towards his or her own retirement. The World Bank's five-pillar model is built on this shared-responsibilities principle. The World Bank's multi-pillar approach is based on the premise that saving for retirement adequately is a complex issue, so a diversified approach relying on multiple sources of retirement savings or income is required. One way to promote shared responsibilities is through financial education. Financial education programs promote the growing individual responsibility over demographic and social change that requires individuals to save more for their retirement.

Though the IFPHK agrees that the current proposals are, to a certain extent, inadequate to cover all aspects of a retirement protection system, and we are not to going to pick any of the options, we did share the same concerns of the Government. The IFPHK acknowledges that resources are limited, and under this constraint, priority should be given to those with acute needs. The core objectives of pension systems are protection against the risk of poverty in old age and smoothing consumption from one's work life into retirement. It is time for the Government to set out a focused policy direction for the future retirement protection system. Securing a basic livelihood for the aged in an ageing society concerns every citizen. Protecting this basic livelihood involves both personal and collective commitment. To reiterate, both are important. Some research findings indicate that there is an inverse relationship between the generosity of public-provided retirement benefits and the level of voluntary saving and private annuities, such that the more comprehensive and generous these benefits, the smaller the need to pre-save voluntarily and purchase private annuities[6]. The IFPHK is against any proposals that may encourage inertia and increase civilians' apathy regarding their responsibilities towards their own retirement savings. Regarding our willingness to raise taxes, we would like to emphasize our principle of maintaining healthy fiscal finance. If recurring income were unable to match recurring expenses, raising taxes would be inevitable.

It is also recognized across the spectrum of views that no single policy tool is able to provide full basic-livelihood protection at old age. While a multi-pillar approach to achieving the policy objectives should be agreed upon, detailed features of each pillar should be flexible and adjustable based on the aforementioned principles. Regarding how to enhance each pillar of the retirement system, our submission mainly focuses on the second and third pillars.

The second pillar

[5] World Bank (2008) The World Bank Pension Conceptual Framework. World Bank Pension Reform Series.
[6] Robert Holzmann, Addressing Longevity Risk through Private Annuities: Issues and Options, University of Malaya & University of New South Wales, revised draft as of March 30, 2015.

In Hong Kong, the second pillar takes the form of MPF Schemes, MPF-exempted Occupational Retirement Schemes, Civil Service Pensions, Grand/Subsidized Schools Provident Fund Schemes, etc. The MPF system is an employment-based, privately managed, mandatorily defined contribution system. It has already been implemented for 16 years as a second-pillar support to the retirement system.

Many view the MPF system as structurally flawed and capable of providing only subsistence-level income or less to retirees. Notwithstanding the above, the IFPHK thinks that the MPF has its own merits, because it successfully acts as a forced saving measure, and after all, it is a sustainable system. However, sustainability is not the same as adequacy. Hong Kong's system is sustainable, but it ranks very low internationally with respect to retirement income adequacy[7]. In view of the urgency of the problem of Hong Kong's fast-growing ageing population to society, it makes sense to carry out additional reforms to attain adequacy. Any reforms to the MPF system should strive towards simplifying the system instead of adding complications to providers and/or to members. As such, **the IFPHK has no major objection regarding the launch of a default fund and centralized electronic portal.** However, the IFPHK has reservations regarding full portability. While we agree scheme members should be given choices, we also think the MPF system should be simple in order to minimize administration costs. **The IFPHK suggests that the Government conduct more studies on the benefits and effectiveness of full portability before putting forward a proposal on full portability.**

With respect to the offsetting arrangements, the IFPHK urges the Government and society to take a holistic view on the issues - to review the objectives and goals of having severance and long-service payments. When long-service payment was first introduced, it was targeted at older employees. As a result, its establishment provides an element of retirement protection. Hence, it is justifiable to allow offsetting arrangements for long-service payments after the implementation of the MPF system. The purpose of severance payments, however, is to serve as emergency funds after loss of income, not to contribute towards retirement. Based on this argument, the IFPHK thinks it is reasonable not to allow offsetting arrangements for severance payments. To balance the views of different stakeholders, the IFPHK suggests adjusting severance-payment factors and amounts to meet the needs of workers who suffer from sudden income loss.

Like any financial plan, the IFPHK agrees that the contribution rate needs to be reviewed regularly to ensure it meets the goals of the MPF system. In order to maintain sustainability and enhance "Pillar 2" adequacy, society should realize that raising the contribution rate is inevitable.

The Third Pillar

In Hong Kong, the third pillar is mainly covered by voluntary MPF contributions, investments in retirement savings-related insurance or other financial products, etc. **The IFPHK supports the proposal to strengthen publicity and promotion efforts to enhance public understanding of the different kinds of insurance and financial products that can help people plan their retirement life or manage their wealth.** As financial products become more complicated and sophisticated, for a market to perform effectively and consumers to be protected properly, a

[7] ICI Global, Insights from the 2013 Global Retirement Savings Conference – the role of investment funds, Hong Kong 26-27 June 2013

fundamental understanding of how these products work is essential. This echoes our principles of advocating financial planning and promoting financial education. Despite the relatively high penetration of financial products in the Hong Kong market and their reasonable growth over the years, the general understanding of these products and how they could be used effectively in one's financial plan remain nebulous.

Even if people have proper knowledge and a willingness to save, they need to have access to appropriate investment products which give them reasonable rates of return. The ongoing low interest rate environment and its stagnant long-term rates, coupled with customer preferences for products that offer either return of premiums upon death or the sum assured in case no other claims were made, are making certain traditional products even more expensive[8] and increase the risks of the providers. **While it is important to create a favourable policy environment to encourage the market to develop more financial products for retirement investment and wealth management, the IFPHK believes the issue is not on product diversification but to match demand and supply. Education may able to narrow the demand-supply gap.** Annuities can be presented as a complex product, with many options within and across providers that cannot be easily comprehended. The experience from Chile suggests that direct online comparability of different providers and products for key features, individual characteristics, and market conditions reduces complexity and simplifies decisions.[9] Government interventions may be needed to establish a reasonably functioning annuity market. A life annuity market needs a functioning capital market that builds on a sufficiently deep and liquid market of government bonds of appropriate maturity.

The IFPHK supports offering a tax incentive to encourage savings; however, we have doubts on the overall impact and effectiveness if the incentive is not substantial. The IFPHK feels that tax deductions alone are not appealing. It serves well as a sweetener to those who already have resources and an incentive to save, so in the IFPHK's opinion, most of the people who would benefit would have already purchased retirement products or have saving habits.

Public services

Our views on the healthcare industry were enunciated in our two previous submissions to the Consultation Papers on healthcare reform. **The IFPHK urges the Government to further enhance primary care and long-term care.**

With changing social values, increasing labour mobility and rapidly ageing populations, assistance from family members can no longer be regarded as a reliable and sustainable source of support for the aged. **Though the IFPHK agrees family support is still important in supporting the multi-pillar approach, everyone should be responsible for his or her own retirement. Financial education should stress the importance of individual responsibility.**

Financial education

As stated by the OECD's recommendations on good practices for financial education relating to private pensions, financial education is particularly important in the private pension field due to

[8] Asia's Senior Markets: More opportunities than challenges?, Asia Insurance Review, December 2015.
[9] Robert Holzmann, Addressing Longevity Risk through Private Annuities: Issues and Options, University of Malaya & University of New South Wales, revised draft as of March 30, 2015.

the unique nature of these financial products, which are complex, exceptionally long-term contracts with wide social coverage. **Financial education specifically related to retirement products should help to promote understanding of the changing retirement environment, the need for long-term savings, and of investment products. Research shows that people who are more financially literate do a better job saving, investing and managing their payouts in retirement.** In global consumer research conducted by the FPSB, Hong Kong consumers have slightly lower than average confidence when it comes to achieving their financial and life goals, with just 19% agreeing that they had strong confidence (compared to 22% globally). Hong Kong consumers are slightly less confident than consumers globally on feeling successful about sticking to their financial strategies. 42% of respondents choose retiring in their desired lifestyle as financial priorities and Hong Kong respondents are broadly interested in financial planning services, with investment planning and retirement planning seen as the most helpful services.[10]

Over the past sixteen years, the IFPHK has a track record of advocating the provision of financial education to consumers. The IFPHK has specific comments on financial education. These suggestions include the following:

- ***Consumers should possess the ability to understand a financial plan.***
  A financial planner integrates all of this financial knowledge and client information to develop a financial plan that is tailored to that specific client. While everyone should possess the ability to understand a financial plan, the IFPHK doubts whether most individuals would be able to develop their own financial plan without having the vigorous certification requirements of a Certified Financial Planner.

- ***Consumers should be equipped with the ability to choose a financial planning professional.***
  A financial planning professional can work with his or her client to identify all relevant parameters for the development of a financial plan. The IFPHK believes that intermediaries in direct contact with clients can help promote consumer protection by assisting them make better-informed decisions on what products to buy. Currently, there is a swathe of different types of advisers in the financial services industry and each can have different qualifications and accreditation that often means nothing to the average consumer. To the IFPHK and its global counterparts, it has become increasingly important that consumers should be able to differentiate financial planners who have undergone vigorous certification requirement from licensed product sellers and financial advisers.

- ***Raising the professional standards of intermediaries***
  The IFPHK always believes that qualified intermediaries and well-informed and educated consumers, together with a robust regulatory framework, should form the core pillars of assurance for the benefit of the investing public. If the professional standards of financial intermediaries do not keep up with the demands of the market, even with all the stringent regulatory measures, Hong Kong would not be able to maintain its reputation as an international financial centre and therefore grow its financial services industry. The IFPHK

[10] The FPSB, in partnership with GfK, conducted a global consumer survey on the value of financial planning and awareness of CFP Certification. From 22 June to 26 July 2015, a total of 19,092 adults who have primary or shared responsibility for household financial decisions were interviewed.

thinks that it is not the quantity but the quality of practitioners that matter. At present, there are about 80,000 practitioners with only about 4,700 CFP certificants. Instead of focusing on attracting new blood to the industry, it would be more effectively to invest in enhancing the professional standard of practitioners by requiring them to obtain some internationally recognized professional designation. In light of the demand for qualified advisers, the IFPHK has launched a locally developed designation, Qualified Retirement Advisor (QRA), to enhance practitioners' ability to advise on retirement products.

- *Provision of objective advice*
  In our submission to previous consultation papers on Financial Literacy Strategy and Financial Competency Framework, the IFPHK recommends that the government spend more on financial counseling and coaching. Objective advice as opposed to advice of a commercial nature is in the OECD's definition provision of counsel to consumers regarding generic financial issues and products, so consumers can make the best use of the financial information and instruction they have received. It is particularly useful for retirement planning. As suggested by the International Organization of Pension Supervisors, providing customized advice to members may be a particularly effective form of delivering the right mix of information and education. Such advice may make it unnecessary to supply detailed information on all possible options available and therefore allow for greater focus on the quality and customerization of information[11].

[11] Ambrogio I.Rinaldi and Elisabetta Giacomel, Information to members of DC pension plans: conceptual framework and International Trend, September 2008.

The CoP Consultation

Hong Kong has a rapidly ageing population and a shrinking workforce. By 2040, about one in every three people in Hong Kong will be an elderly person. The number of people in Hong Kong aged 65 or above will more than double from 1.07 million last year to 2.58 million in 2064. In view of the above, the Government has, since the 1960s, been studying different forms of retirement protection, on which there have been wide discussions and diverse views in the community.

In May 2013, the Commission on Poverty (CoP), chaired by the Chief Secretary for Administration, commissioned the team led by Professor Nelson Chow to study the future development of retirement protection. In August 2014, the research report (the "Report") was released for public discussion. In 2015, the Government set aside $50 billion to demonstrate the Government's determination in and commitment to improving the protection for needy residents after retirement. On 23 December 2015, the CoP launched a six-month consultation on retirement protection, which includes two simulation options for public discussion (the "Consultation Paper"). The submission deadline is June 21, 2016.

The Consultation Paper contains seven chapters and ten questions are listed out in Chapter 7. Chapters in the Consultation Paper are as follows:

Chapter 1 – Scope and Purpose of the Consultation

Chapter 2 – Challenges of Ageing Population

Chapter 3 – Multi-pillar System and Underlying Principles

Chapter 4 – Current State of the Zero and Fourth Pillars

Chapter 5 – Current State of the Second and Third Pillars

Chapter 6 – Comparison of Simulated "Regardless of Rich or Poor" and "Those with Financial Needs" Options

Chapter 7 – Express Your Views

Research Methodology

The Consultation Paper Submission will be based on the following research methodology which is consistent with other consultation paper submissions:

The IFPHK is a professional body that seeks to promote the highest professional standards in the financial planning industry. It is therefore important to respond to consultation and policy papers that can significantly impact the financial planning sector. When formulating its response to such papers, the IFPHK takes a systematic approach to its conclusions. This includes:

1. An independent and objective study of the proposals and their overall impact, both positive and negative on the industry and consumers, based on theoretical and practical analysis.

2. Study of international practices that are either more developed or similar to Hong Kong.

3. Collection of comments and opinions from the industry.

After collecting and consolidating industry views, the IFPHK analyzed the information together with its own research on the practices in other countries. The IFPHK formulated its responses to the chapters set out in the Consultation Paper.

The views expressed in this submission paper are not necessarily summaries of the views taken from the industry. They may have undergone more independent and critical analysis and consideration by the IFPHK as a professional body. As a result, not all the views collected by the IFPHK are recorded in this submission paper and neither have all the views expressed in this submission paper been directly endorsed by those industry representatives or members consulted.

IFPHK's Submission

Retirement protection has been a hotly debated topic for almost five decades. Ageing is indeed a huge concern in Hong Kong. The MPF system is setup to serve as pillar 2 of the retirement system model as recommended by the World Bank. The average age is projected to increase from around 40 in 2007 to around 48 in 2033 and then 50 by 2050. The number of persons aged 65 or above will increase to 2.16 million by 2031. The demographic shifts will have a profound impact on the economy as the number of working-age people shrinks and the number of non-working grows. While there is no one-shoe-fits-all solution on retirement protection, the IFPHK recognizes that there is an urgency to reach a consensus on a retirement system that is designed to cope with the future ageing population boom. The IFPHK's submission to this Consultation Paper is based upon several principles which the IFPHK considers essential for any retirement system in general:

- ***Advocating the importance of financial planning and retirement planning***
  Financial planning refers to the process of setting, planning, achieving and reviewing life goals through proper management of finances[12]. For the IFPHK and other affiliates of the Financial Planning Standard Board ("FPSB"), the financial planning process consists of six steps that help clients take a holistic approach to assessing their financial situation[13]. A financial planner is someone who uses the financial planning process to provide a client with integrated strategies to achieve financial and life goals. A financial planner typically reviews relevant aspects of a client's situation across a large breadth of financial planning activities, which may include financial management, asset management, risk management, and tax planning, retirement planning and estate planning. In Hong Kong, financial planners work in different segments within the financial services industry. Financial planners can be insurance agents of insurance companies or insurance brokers working in insurance brokerage or Independent Financial Advisors ("IFAs") or relationship managers working in banks.

  Hong Kong is an advanced economy and a world financial centre. However, most people here do not plan for their retirement. As noted from "Investment Education Centre Financial Knowledge and Capability in Hong Kong: A Foundation Study", only 36% of people here perform financial planning. It is the IFPHK's mission to increase all external stakeholders' awareness of the importance of financial planning and advice from a financial planning professional. In global consumer research conducted by the FPSB, Hong Kong consumers have slightly lower than average confidence when it comes to achieving their financial and life goals, with just 19% agreeing that they had strong confidence (compared to 22% globally). Hong Kong consumers are slightly less confident than consumers globally on feeling successful about sticking to their financial strategies[14].

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[12] www.fpsb.org
[13] The six steps include:
Step 1: Establishing and defining the relationship with the client
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Step 4: Developing and presenting the financial planning recommendations
Step 5: Implementing the financial planning recommendations
Step 6: Monitoring
[14] The FPSB, in partnership with GfK, conducted a global consumer survey on the value of financial planning and awareness of CFP Certification. From 22 June to 26 July 2015, a total of 19,092 adults who have primary or shared responsibility for household financial decisions were interviewed.

As Hong Kong has one of the world's fastest-growing ageing populations, it is expected that retirement planning will become more prominent within our society. In our global consumer research, 42% of respondents choose retiring in their desired lifestyle as financial priorities and Hong Kong respondents are broadly interested in financial planning services, with investment planning and retirement planning seen as the most helpful services.[15] Over the past 16 years, the IFPHK has worked towards the objective to promote public awareness of the financial planning industry and has a track record of advocating the provision of financial education to consumers. The IFPHK regards that CFP certificants or financial planners in direct contact with clients can help promote consumer protection by assisting them make better-informed decisions about the products they buy. Financial planners should be encouraged to become involved in the education program to enhance public awareness and boost the industry's reputation.

- ***Enhancing financial literacy and promoting financial education***
  Notwithstanding the urgency to tackle Hong Kong's fast ageing population, research shows that there is a general lack of understanding regarding financial planning, the MPF system and retirement planning. The IFPHK always believes that improved financial literacy levels will not only allow consumers to make more informed investment decisions, but also result in greater consumer appreciation of planning for a long-term financial future – a concept the IFPHK continuously promulgates. Financial education helps to maintain transparency and confidence in the retirement system and financial system as a whole, and thereby encourages individuals to take more responsibility towards their own retirement.

  As financial products become more complicated and sophisticated, for a market to perform effectively and consumers to be protected properly, a fundamental understanding of how these products work is essential. The IFPHK regards that intermediaries in direct contact with clients can help promote consumer protection by assisting them make better-informed decisions about the products they buy. Intermediaries should be encouraged to become involved in the education program to enhance public awareness and boost the industry's reputation. In Japan, defined contribution plan providers are required by law to provide financial education.

  To the IFPHK, financial literacy is important to everybody in society. The need for financial education is necessary regardless of the form of retirement system. Improving financial education may help in promoting income security at retirement. Adequate financial knowledge and awareness would permit people to recognize the long-term nature of saving for retirement, and the importance of keeping up contributions to pension plans in order to guarantee an adequate level of retirement income. The IFPHK suggests education for the need of financial planning should start early. For instance, it is most economical to purchase health insurance while one is young and healthy. Thus the IFPHK considers it critical to educate young adults to properly plan and finance their future retirement costs.

  Please refer to additional recommendations in Question (j).

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[15] The FPSB, in partnership with GfK, conducted a global consumer survey on the value of financial planning and awareness of CFP Certification. From 22 June to 26 July 2015, a total of 19,092 adults who have primary or shared responsibility for household financial decisions were interviewed.

- ***Maintaining a sustainable retirement protection system and healthy fiscal finance***
According to the World Bank, the core objectives of pension systems are protection against the risk of poverty in old age and smoothing consumption from one's work life into retirement[16]. On the one hand, the Government has the responsibility to ensure basic livelihood for all retirees, and on the other, the Government is also responsible for maintaining healthy fiscal finance. Retirement protection is a recurring fiscal expense, and it is critical to match it with recurring fiscal income. Building a healthy and sustainable retirement protection system poses policy challenges to many governments, not just the Government of Hong Kong.

- ***Owing to the scarcity of resources, priority should be given to those with acute needs***
As aforementioned, the Government's responsibility is to ensure basic livelihood for all retirees. According to the World Bank, populations in the East Asia and Pacific region are aging faster than in any other region, posing risks for public finances and healthcare delivery, and increasing the challenges to sustained economic growth. Managing aging requires womb-to-tomb policies addressing issues such as childcare, education, employment practices, health care and pensions. Resources of society are limited, therefore, one of the major objectives of many retirement systems is to provide resources for people who are poor all their lives and is unable to save enough for retirement.[17] They represent groups of people that do not or are unable to participate in employment in a sustained manner, and are therefore not properly protected by employment-related retirement protection schemes. Neither do they have any personal savings to finance their retirement expenses. When they get old and are unable to work in a full-time capacity, they will face the problem of old-age poverty.[18]

- ***Promulgating the importance of shared responsibilities on retirement protection***
While the Government is responsible for ensuring basic livelihood for all retirees, everybody in society also has responsibility towards his or her own retirement. As always stated in previous submissions, the IFPHK suggests education for the need of financial planning should start early. The IFPHK considers it critical to educate young adults to properly plan and finance their future retirement costs. This is also essential to build a healthy community as well as release the financial burden and stress on the healthcare system as a whole. Shared responsibilities are promoted internationally. The World Bank's five-pillar model is built on this shared responsibilities principle. The World Bank's multi-pillar approach is based on the premise that retirement savings adequacy is a complex issue and a diversified approach relying on multiple sources of retirement savings or income is required.

  One way to promote shared responsibilities is through financial education. Financial education programs can promote growing individual responsibility over demographic and social change that requires individuals to save more for their retirement. Such education programs help to maintain transparency and confidence in the MPF and retirement protection system, and thereby encourage individuals to take more responsibility towards their own retirement.

Based on the above principles, the IFPHK's comments on each question in the Consultation Paper are set out as follows:

[16] World Bank (2008) The World Bank Pension Conceptual Framework. World Bank Pension Reform Series.
[17] World Bank (2008) The World Bank Pension Conceptual Framework. World Bank Pension Reform Series.
[18] Towards Retirement Security, Mandatory Provident Fund Schemes Authority, 2015

<u>"Regardless of rich or poor" or "those with financial needs" principle</u>

a) ***With limited resources, addressing elderly poverty is one of the primary objectives of enhancing retirement protection. To effectively improve the poverty situation of the elderly and ensure the sustainability of the system, should we adopt the "regardless of rich or poor" principle to provide a uniform payment for all elderly people irrespective of their financial status? Or should we continue to use the "those with financial needs" principle targeting resources towards increased assistance for the elderly in need, with a view to providing them with adequate protection? What are the justifications? The substantial expenditure required by the "regardless of rich or poor" option will render tax hikes or new taxes inevitable. Are you willing to pay the additional taxes?***

A brief summary on the two options put forward by the Government is as follows:

	For the universal "Regardless of rich or poor" option	**For the non-universal "Those with financial needs" option**
Concepts and objectives?	• Retirement protection is a basic right, not a welfare benefit. Thus no mean test should be imposed. • Elderly people can live with more dignity in their old age. They do not have to run down their assets to a very low level in order to pass the means test before receiving social welfare assistance. • Assist elderly people to tackle longevity risk effectively. It provides basic income protection. • There is no lack of precedents of livelihood measures in which benefits are provided on a universal basis, for example, free education for 12 years.	• Targets resources towards helping the needy elderly. • The principle represents Hong Kong's cherished core values of self-reliance and hard work. • Pay as you go ("PAYG") nature of the "Regardless of rich or poor" option means that contributions or taxes from employees and employers of the current generation would be used to pay for the pensions of the previous generation. • Inter-generational retirement protection arrangement will increase the reliance of the future generation on the retirement benefits thus reducing its saving incentive. This will have adversely impact future economic development as well as the sustainability of both public finances and retirement protection.
How many people would benefit?	All elderly people aged 65 or above, or 1.12 million people	This introduces a new layer of support beneath the Old Age Living Allowance, making around 250,000 elderly persons eligible - Elderly single people with

	For the universal "Regardless of rich or poor" option	For the non-universal "Those with financial needs" option
		assets not exceeding HK$80,000 and a monthly income of no more than HK$7,340 - Married elderly couples with assets not exceeding HK$125,000 and a monthly income of no more than HK$11,830
How much would it cost?	An uptick from $22.6 billion in 2015 to $56.3 billion in 2064, leading to an overall increase in expenditure of $2,395 billion for 50 years	An uptick from $2.5 billion in 2015 to $6 billion in 2064, leading to an overall increase in expenditure of $255.5 billion for 50 years
Funding and Financing?	**For Government** For both options, the government proposed four ways to foot the bill, including setting up a tax for employers and employees, increasing salaries tax, increasing profits tax, or introducing a goods and services tax.	
	- Taxing employers and employees 1.6 to 3.9% - Increasing salaries tax by 8.3% - Increasing profits tax by 4.2% - Introducing a goods and services tax of 4.5%	- Taxing employers and employees 0.2 to 0.4% - Increasing salaries tax by 0.9% - Increasing profits tax by 0.4% - Introduce a goods and services tax of 0.5%

Source: South China Morning Post and Consultation Paper

Besides, the Government expressed reservations about the "regardless of rich or poor" principle in the Consultation Paper. The Government's main concern lies in four areas:

1. It undermines the long-term sustainability of public finances. This will not only reduce the financial capacity of the Government in handling other retirement protection initiatives (e.g. healthcare, long-term care and community care services), but will also inevitably compress the expenditure on other policy areas.
2. Hong Kong is entering an era of rapid population ageing. It will run into deficit and will not be financially sustainable.
3. It will need to raise taxes substantially or even introduce new taxes. This will deviate from Hong Kong's long established low tax regime. It will not only weaken Hong Kong's ability in attracting foreign investments, but also undermine the long-term economic development of Hong Kong. This, ultimately, will affect the competitiveness of Hong Kong.

4. The allocation of resources under the "regardless of rich or poor" principle is not targeted, rendering resources not being able to be deployed in the most effective manner to help the elderly in need.

IFPHK's Response

There are bi-polar views on the proposals. Those against the proposal regard retirement protection as a basic right not a welfare benefit, and thus no mean test should be imposed. This right should be universal like free education. In addition, demo-grants or social pensions can serve as longevity insurance against the ageing population. Also, many criticized the Government of using scare tactics, such as threatening tax hikes, to steer public opinion in its favour in the Consultation Paper. Economist Peter Diamond also criticized the Consultation Paper as "hopelessly inadequate" as it fails to discuss the proper design of a good pension. He said that discussion of pension design shall be at least on the following areas which include the size of the monthly payment, the age at which the pension is first paid, whether the pension is universal or tested, and the degree of funding[19].

On the other hand, the sustainability of retirement protection in the form of demo-grants or PAYG is a prime concern of the Government. Director of the Center for Economic Development, Professor Lui, on the proposal outlining universal retirement protection for all the elderly "regardless of their wealth", criticized its supporters for failing to consider the financial sustainability of such a system.[20] Though the IFPHK agrees that the current proposals are to a certain extent inadequate to cover all aspects of a retirement protection system, we also shared the same concerns of the Government. **The IFPHK acknowledges that resources are limited, and under this constraint, priority should be given to those with acute needs.** They represent groups of people that do not or are unable to participate in employment in a sustained manner, and are therefore not properly protected by employment-related retirement protection schemes. Neither do they have any personal savings to finance their retirement expenses. When they get old and are unable to work in a full-time capacity, they will face the problem of old-age poverty. According to Hong Kong's poverty statistics for 2013, 43.5% of the elderly population (over 65) was living below the Poverty Line. In 2014, more than 1.3 million - out of a population of just fewer than 7.2 million - still live in poverty, according to an annual government report. The total number of poor in the city was 1.325 million in 2014, slightly lower than the 1.336 million in 2013.

According to the World Bank, the core objectives of pension systems are protection against the risk of poverty in old age and smoothing consumption from one's work life into retirement[21]. One of the major objectives of many retirement systems is therefore to provide resources for people who are poor all their lives and unable to save enough for retirement. In some countries (e.g. UK), certain pension schemes (minimum guaranteed pension and means-tested basic pension) have been established with a focus to address the retirement needs of these vulnerable people. The Singapore government has announced upcoming changes to the CPF for 2016, which include providing minimum pension top-up amounts for the poorest individuals[22].

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[19]諾獎得主：香港退保諮詢 Hopelessly Inadequate, Hong Kong Economic Journal, 9 January 2016
[20]雷鼎鳴倡 **80** 歲全民老年金　對較年輕長者 經審查予津貼, Hong Kong Economic Journal, 11 January 2016
[21] World Bank (2008) The World Bank Pension Conceptual Framework. World Bank Pension Reform Series.
[22] Mercer global pension index

Everyone's responsibility

Securing a basic livelihood for old age in an aging society concerns every citizen. Protecting the basic livelihood at old age involves both personal and collective commitment. Both are important. Some people may suffer myopia and, even where they can afford to do so, may not plan for their old age when they are young. By the time they begin to become aware of this issue, it may be too late for them to take remedial actions. Another behavioural issue may also affect the need for government involvement in retirement protection. Some people may overspend when they are young, with the expectation that society will take care of them when they are old[23]. The IFPHK is against any proposals that may encourage inertia and increase civilians' apathy regarding their responsibilities towards their own retirement savings. It is believed that public provided retirement benefits should exist in the form of earnings-related social insurance pensions or basic pension benefits. Some research notes that there is an inverse relationship between the generosity of public provided retirement benefits and the level of voluntary saving and private annuities, such that the more comprehensive and generous these benefits are, the smaller the need to pre-save voluntarily and then purchase private annuities[24].

Multi-pillar approach

The problems of ageing populations are so immense that society cannot afford to remain spilt on opinions.[25] According to the World Bank, populations in the East Asia and Pacific region are aging faster than in any other region, posing risks for public finances and healthcare delivery, and increasing the challenges to sustained economic growth. Managing aging requires womb-to-tomb policies addressing issues such as childcare, education, employment practices, health care and pensions. Effectiveness requires strong leadership, building social consensus, and politically challenging policy choices. Without reforms, public spending is projected to rise by 8 to 12 percentage points of gross domestic product by 2070, but phased increases in official retirement ages and other reforms have the potential to control costs while ensuring adequate benefits.[26] The World Bank's multi-pillar approach is based on the premise that retirement savings adequacy is a complex issue and a diversified approach relying on multiple sources of retirement savings or income is required. It is recognized across the spectrum of views that no single policy tool is able to provide full basic-livelihood protection at old age. A multi-pillar approach to achieving the policy objectives needs to be agreed upon.

Good pension design

Notwithstanding our concerns over the sustainability of a PAYG pension system, we agree that it is crucial for the government to establish clear objectives for the whole retirement system, including the complementary roles of each pillar, and incorporate the provision of a minimum income to alleviate poverty amongst the aged population. According to the CFA Institute and Mercer, it is important that the government pension be set at a level that can continue and withstand reasonable shocks to the economy. That is, the government pension must be robust and sustainable. Saving for retirement needs to be considered over a lifetime of earnings. That is,

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[23] Towards Retirement Security, Mandatory Provident Fund Schemes Authority, 2015

[24] Robert Holzmann, Addressing Longevity Risk through Private Annuities: Issues and Options, University of Malaya & University of New South Wales, revised draft as of March 30, 2015.

[25] Task Force on Old Age Pension Protection Faculty of Social Sciences, HKU, "Old-age Income Protection in Hong Kong A Next Step in Public Engagement"

[26] World Bank, "Rapid Aging in East Asia and Pacific will shrink workforce and increase public spending", 9 December 2015.

the system needs to be flexible to allow individuals to "catch up" when they have the capacity to do so[27].

There are various voices on the details of the proposals. Chua Hoi-wai, chief executive of the Council of Social Service, said the non-universal scheme set the threshold too high for elderly people, saying they could only have savings of no more than HK$80,000 to be eligible. Chua said: "Given Hong Kong's high cost of living, there is no way the elderly would feel secure to have just HK$80,000 in savings. A lot of them would have to give up their extra savings in order to be eligible, or live feeling insecure." Director of the Center for Economic Development, Professor Lui suggested that it is relatively more feasible to provide universal protection for all senior citizens aged 80, while offering subsidies to those below 80 after wealth or income vetting.[28] The IFPHK thinks that once a clear policy direction is made, the Government should discuss with stakeholders to adjust and refine the levers of the retirement protection system. These levers include the level of mandatory contributions paid by employers and/or employees, the level of taxation affecting pension plans and/or benefits, eligibility requirements for the government pension, eligibility ages for the government pension and/or access to funded pension benefits, the form of benefits that can be taken from funded pension arrangements and the indexation of pensions in payment.[29]

Regarding our willingness to raise taxes, we would emphasize on our principle of maintaining healthy fiscal finance. **If recurring income is not able to match recurring expenses, a tax rise is inevitable regardless of whether the purpose is to finance a pension plan or meet the increase in recurring expenses as a result of the shrinking working population.**

Groups deserving attention

b) The CoP has identified four groups which deserve further attention, namely:

- ***i. The poor elderly people who are receiving assistance such as the OALA and still claim to have financial needs;***
- ***ii. The low-income persons especially those who need not make MPF employee contributions because of their low income and those who are affected by the "offsetting" arrangement;***
- ***iii. The non-working population; and***
- ***iv. The elderly people who are "asset-rich, income-poor".***

Do you think there are other groups which need our further attention?

After examining the elderly poverty situation and the profile of elderly people that can be covered by each pillar under the existing retirement protection system, the CoP considers that the following groups deserve our attention:

The poor elderly people who are receiving assistance such as the OALA	Based on the 2014 poverty statistics, this included 35,000 non-CSSA elderly people who were below

[27] Mercer and CFA Institute, "An Ideal Retirement System", March 2015.
[28]雷鼎鳴倡 **80** 歲全民老年金　對較年輕長者 經審查予津貼, Hong Kong Economic Journal, 11 January 2016
[29] Mercer and CFA Institute, "An Ideal Retirement System", March 2015.

and still claim to have financial needs;	the poverty line and claimed to have financial needs. Among them, 20,000 or so were receiving the OALA.
The low-income persons especially those who need not make MPF employee contributions because of their low income and those who are affected by the "offsetting" arrangement;	Given the features and the relatively short history of the MPF system, low-income earners can only accumulate relatively less savings upon retirement. This is especially the case for those employees who need not make contributions due to their low income and those who are affected by the "offsetting" arrangement. In 2014, 43,500 employees made up this group.
The non-working population	There are about 650,000 homemakers in Hong Kong. Most of them are housewives who can only rely on private savings, family support or financial assistance provided by social security to support their living in their old age.
The elderly people who are "asset-rich, income-poor"	There are elderly people who are not rich but have assets. As they are uncertain of their life expectancy and are worried about outliving their own savings, they tend to reduce their daily expenses as much as possible.

IFPHK's Response

The IFPHK has specific comments on each of the groups highlighted in the Consultation Paper:

Group deserving attention	**IFPHK's Comments**
i) The poor elderly people who are receiving assistance such as the OALA and still claim to have financial needs	The Government should ensure basic livelihood for all retirees. The IFPHK believes that resources should be allocated to those with acute needs, especially people who have been poor throughout their lives. In some countries (e.g. the UK), certain pension schemes (minimum guaranteed pension and means-tested basic pension) have been established with a focus to address the retirement needs of these vulnerable people. In 2014, more than 1.3 million (out of a population of just fewer than 7.2 million) still lived in poverty, according to an annual government report. The total number of poor in the city was 1.325 million in 2014, slightly lower than the 1.336 million in 2013. In view of the above, it is critical to reach a consensus on identifying lifetime poverty and agreeing on providing assistance levels that allow these people to maintain a basic livelihood.

Group deserving attention	IFPHK's Comments
ii) The low-income persons especially those who need not make MPF employee contributions because of their low income and those who are affected by the "offsetting" arrangement	Same as above, it is our belief that priority should be given to those with acute needs and everyone should be responsible towards his or her own retirement. Thus, the policy priority of the Government should be to help those who cannot maintain a basic livelihood at old age. Our views on the offsetting arrangement will be further discussed in our response to Question (d) pillar 2 – MPF below.
iii) The non-working population	Again our principle is to give priority to those with acute needs regardless of whether they are part of the working or non-working population. If household incomes fall below a level that can maintain a basic livelihood, resources should be allocated to help these families. The IFPHK thinks that more can be done to encourage employment, such as better childcare and family care, so that women are encouraged to continue employment after pregnancy and an increased possibility of extending the retirement age.
iv) The elderly people who are "asset-rich, income-poor"	Protecting the basic livelihood at old age involves both personal and collective commitment. Both are important. Asset-rich elderly people need the help of financial planners. A financial planner is someone who uses the financial planning process to provide a client with integrated strategies to achieve financial and life goals. A financial planner typically reviews relevant aspects of a client's situation across a large breadth of financial planning activities, which may include financial management, asset management, risk management, and tax planning, retirement planning and estate planning. The IFPHK suggests that the Government offer free financial planning consultancy services to the public. The provision of objective financial advice will be further discussed in Question (j). In Japan, the Ministry of Land, Infrastructure, Transport and Tourism is launching a campaign called

Group deserving attention	IFPHK's Comments
	"Cultivation of experts to vitalize the existing home market". Experts, including CFP certificants who are able to provide advice on financial plans, are being recruited from various organizations.

The ultimate goal of financial planning is to prepare for retirement. Financial planning and retirement planning are therefore important to all including minors and young adults. Financial education and the importance of financial planning shall be introduced and taught early in one's life. Thus, special attention should not only be limited to the four groups identified by the Government but also on teenagers and young adults.

Enhancing existing pillars

The zero pillar – social security

c) At present, 73% of the elderly population are beneficiaries of various social security schemes, including the CSSA, OALA, DA and OAA. To strengthen the poverty alleviation function of the zero pillar, should we provide an additional tier of financial assistance under the OALA for the "those with financial needs" option? How can we identify these needy elderly? At what level should the asset limit be set? What subsidy level will be regarded as adequate?

The zero pillar is a multi-tiered social security system. The main function of most of the schemes is to alleviate poverty by serving a safety net for those elderly people who are unable to have adequate retirement protection under the other pillars or by supplementing their living expenses. At present, all four of the assistance programmes are non-contributory and funded by general revenue.

Social Security Program	Brief Introduction
Comprehensive Social Security Assistance (CSSA) Scheme	The CSSA Scheme was introduced in 1993, replacing the former Public Assistance Scheme. The Scheme provides a safety net of last resort to households that cannot support themselves financially owing to old age, sickness, disability, single-parenthood, unemployment and low income, etc., so as to help them meet their basic needs.
Old Age Living Allowance (OALA)	The means-tested OALA was introduced in 2013. It supplements the living expenses of elderly persons aged 65 or above who are in need of financial support.
Old Age Allowance (OAA)	The OAA was introduced in 1973. It provides a non-means-tested allowance to elderly persons aged 70 or above to meet their special needs arising from old age.
Disability Allowance (DA)	The DA was introduced in 1973. It provides a non-means-tested allowance to persons with severe disabilities to meet their special needs arising from disabilities.

IFPHK's Response

Serving as the basic pension, the zero pillar should meet the objective of protection against old-age poverty by providing a minimal level of retirement protection. It is normally in the form of a universal flat-rate benefit or general social assistance financed by government revenue. It ensures that people with low lifetime incomes are provided with basic protection in old age[30]. Since social welfare is not the expertise of the IFPHK, we would not provide specific comments on this pillar. However, we agree that it is the Government's priority to allocate resources to help those with acute needs. Society should openly discuss the definition of "those with acute needs". The IFPHK also regards that there should be room for discussion if the asset threshold proposed in the Consultation is considered by the public to be too stringent.

The second pillar - MPF

d) The CoP agrees the MPF pillar should be strengthened by introducing three key measures:

- ***i. Launching the DIS in 2016;***
- ***ii. Putting in place a centralized electronic portal to facilitate the standardization, streamlining and automation of the MPF scheme administration; and***
- ***iii. Implementing "full portability" in the long run.***

The CoP also thinks that the community should make good use of the opportunity offered by this consultation to conduct thorough and in-depth discussion on the impact of the desirable options for addressing the "offsetting" issues on employers and employees, as well as the role of the Government. The community should endeavour to find an option acceptable to both employers and employees. In addition, the community should consider ways to rationalize the relationship between severance payment/ long-service payment and the MPF, and discuss mitigation measures which can be adopted to reduce the impact of any changes on the business sector (especially SMEs) and the labour market. The CoP also proposes to further consider the feasibility of raising the contribution rate upon full implementation of the DIS.

Do you agree with these reform directions? In particular, do you have any specific proposals to properly address the "offsetting" issue?

In Hong Kong, the second pillar takes the form of MPF schemes, MPF-exempted Occupational Retirement Schemes, Civil Service Pensions, Grand/Subsidized Schools Provident Funds, etc. The MPF System is an employment-based, privately managed mandatory defined contribution system. At present, about 2.55 million employees are enrolled in MPF schemes, representing 100% of the employees required by law to join the MPF schemes. This is a very high rate by international standards.

Whether MPF accrued benefits are enough to support one's retirement life is directly linked to the contribution rates, maximum and minimum levels of relevant income and investment returns. Key features of the MPF System are as follows:

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[30] Towards Retirement Security, Mandatory Provident Fund Schemes Authority, 2015

- Employer and employee are each required to contribute 5% of the relevant employee's income.
- A self-employed person is required to contribute 5% of his or her income.
- Employees or self-employed persons earning less than the minimum relevant income level (i.e. $7,100 a month) do not need to contribute but employers still need to make their contributions for the employees.
- No contributions required for earnings more than the maximum relevant income level (i.e. $30,000 a month).
- Employers select MPF schemes from which scheme members choose the constituent funds.

The CoP considers that the primary objective of the MPF System is to safeguard scheme members' retirement benefits. The CoP considers that the Mandatory Provident Fund Schemes Authority ("MPFA") has to continue its efforts in reducing fees, as there is still a gap between the existing fee levels and the general expectation of scheme members.

The existing MPF system has an offsetting arrangement. Offsetting is an arrangement that allows employers to use funds which include MPF accrued benefits to offset severance payments or long-service payments required under the Employment Ordinance (Cap.57). According to the information provided by the MPFA between July 2001 and the end of 2014, MPF benefits withdrawn for "offsetting" amounted to $25 billion, representing 29% of the total benefits withdrawn during that period.

Severance Payment	Long-Service Payment
It was introduced under the Employment Ordinance in 1974. Severance payment was introduced to provide compensation for an employee who is dismissed by reason of redundancy and has less than 24 months of continuous services with the same employer prior to the termination, so as to help alleviate hardship caused by loss of employment.	It was introduced under the Employment Ordinance in 1986. Long-service payment was introduced to provide compensation for older employees dismissed by reason other than redundancy after serving the same employer for a long period of time. When long-service payment was first introduced, it was targeted at older employees. After a number of subsequent amendments, the provisions for long-service payment have progressively evolved into the current version, where the amount payable to employees is extended to include employees who resign under certain special circumstances.

When severance payment and long-service payment were introduced under the Employment Ordinance, employers were allowed to use the gratuity based on the length of service paid to employees or provident fund to offset severance payment and long-service payment (referred to as "offsetting arrangement"). The offsetting arrangement is also applicable to the retirement protection schemes registered under the Occupational Retirement Schemes Ordinance and the Mandatory Provident Fund Schemes Ordinance.

IFPHK's Response

The second pillar is a mandatory and privately managed pension scheme. Its primary objective is consumption smoothing, helping the working people to save for retirement. Consumption smoothing is the process of encouraging or requiring people to transfer consumption from their working lives to their retired years.[31] The MPF System has been implemented for 16 years as the pillar 2 support to the retirement system. Many view the MPF system as structurally flawed and capable of providing only a subsistence-level income or less to retirees. Various issues are the subjects of ongoing debate include the level of fees and charges, the complexity of decision-making for members and whether returns generated by funds within the system meet expectations of what should be delivered by a well-designed retirement savings product. At present, there are 477 MPF funds which is quite substantial for a fairly small place like Hong Kong, and having too many investment choices is certainly problematic to scheme members. The large number of funds offered through the MPF system creates a skewed attitude towards risk, because most of the new funds added to the system are higher-risk, mixed-asset or equity funds. Consequently members have an average asset allocation of more than 60% in equities[32]. Besides, the low asset level of the MPF is held up as the primary structural factor responsible for high management fees. The low asset level curtails economies of scale that otherwise would be available to service providers.[33] Some critics say that the exorbitant management fees charged by overzealous MPF service providers render investment returns all but worthless. The administration infrastructure of the MPF is manual, complicated and redundant. The total management fee level of 1.74% is higher than four other pension systems in Australia, Chile, Singapore and the UK.[34]

Notwithstanding the above, the IFPHK thinks that the MPF has its own merits, because it successfully acts as a forced saving measure and, after all, it is a sustainable system. However, sustainability is not the same as adequacy. Hong Kong's system is sustainable, but it ranks very low internationally with respect to retirement income adequacy[35]. In view of the urgency of the problem of Hong Kong's ageing population to society, it makes sense to carry out additional reforms to attain adequacy. Any reforms to the MPF system should strive towards simplifying the system instead of adding complications to providers and/or to members. As such, the IFPHK has no major objection to the launching of a default fund and centralized electronic portal. However, the IFPHK has reservations regarding full portability. While we agree Scheme members should be given choices, we also think the MPF system should be simple in order to minimize

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[31] Towards Retirement Security, Mandatory Provident Funds Scheme Authority, 2015

[32] ICI Global, Insights from the 2013 Global Retirement Savings Conference – the role of investment funds, Hong Kong 26-27 June 2013

[33] Oswald Chan, Pig of a pension plan, China Daily Asia, 19 July 2013.

[34] The administration of the MPF involves many steps and processes that are detailed in a statue. Simplifying and streamlining the entire system would benefit members and providers, and help reduce costs. The "Study of Administrative Costs in the Hong Kong Mandatory Provident Fund System" (Cost Study) published in 2012 shows the result of the independent consultant's analysis of the average Fund Expense Ratio (FER) of 1.74%. Namely, of this 1.74%, investment management accounts for 0.59%, administration cost 0.75%, and scheme sponsor charge, trustee profit, member rebates and other expenses, as a whole, 0.4%. Hence, administration and other costs represent the majority of the fund costs. However, details of cost components e.g. sales and marketing expenditure, and commissions to intermediaries, are not available for public view.

[35] ICI Global, Insights from the 2013 Global Retirement Savings Conference – the role of investment funds, Hong Kong 26-27 June 2013

administration costs. The IFPHK suggests that the Government conduct more studies on the benefit and effectiveness of full portability before putting forward a proposal.

Offsetting Arrangement

In respect of the offsetting arrangement, the IFPHK urges the Government and society to take a holistic view on the issues - to review the objectives and goals of having severance and long-service payments:

- *Long-service payment:* Long-service payment was first introduced to provide compensation for older employees dismissed by reason other than redundancy after serving the same employer for a long period of time. When long-service payment was first introduced, it was targeted at older employees. As a result, the establishment of long-service payment offers an element of retirement protection. Hence, it is justifiable to allow for offsetting after the implementation of the MPF. If this offsetting arrangement were cancelled, society would need to discuss and redefine the purpose of having long-service payments and whether they should be used as top-up payments for years of service.

- *Severance payment:* The purpose of a severance payment is to serve as an emergency fund for loss of income and is not intended for retirement purposes. Based on the above argument, the IFPHK thinks it is reasonable to cancel the offsetting arrangement for severance payments.

Again, there are diverse views on the cancellation of the offsetting arrangements. Even some representatives of the business sector feel that it should be cancelled. The Bauhinia Foundation Research Centre agrees that this "unfair" treatment should be abolished but still needs to consider ways to make it affordable for the business sector. The think tank estimated that the potential financial burden for businesses to abolish the controversial mechanism could be as high as HK$240 billion, and each company's expenditure on salary could increase by about 0.4%[36]. The IFPHK urges that the discussion should not only focus on the cancellation of the offsetting arrangement but also review the current system of severance and long-service payments. To balance the views of different stakeholders, the IFPHK suggests adjusting the factors and amounts of severance payment to meet the needs of workers suffering from sudden income loss.

Feasibility of raising the contribution rate

Like any financial plan, the IFPHK agrees that the contribution rate needs to be reviewed regularly to ensure that it meets the goals of the MPF system. In order to maintain the sustainability and enhance the adequacy of Pillar 2, society needs to realize that raising the contribution rate is inevitable.

The third pillar – voluntary savings

e) The CoP considers that a three-pronged approach may be adopted to further encourage voluntary savings:

[36] South China Morning Post, "In surprise move, pro-business think tank backs unionists' call to scrap Hong Kong's MPF offset mechanism, 26 January 2016.

i. ***Strengthening publicity and promotion efforts to enhance public understanding of different kinds of insurance and financial products that will help people plan their retirement life or manage their wealth;***
ii. ***Creating a favourable policy environment to encourage the market to develop more financial products for retirement investment and wealth management (such as annuity plans or retail bonds with longer term to maturity); and***
iii. ***Providing tax concessions to incentivize people to increase voluntary retirement savings for themselves and their families.***

Do you agree that these proposals would be effective in encouraging voluntary savings? Do you have any ideas?

In Hong Kong, the third pillar covers mainly MPF voluntary contributions, investments in retirement savings-related insurance or other financial products, etc.

The CoP is of the view that the Government can further encourage voluntary savings through various means. These measures include increasing publicity, creating a favourable policy towards financial products development and providing tax concessions.

<u>IFPHK's Response</u>
The third pillar complements the formal pension systems and enables people to accumulate a higher level of savings in retirement. The main objective is again for consumption smoothing.[37] The IFPHK has specific comments on each of the policy proposals on encouraging voluntary savings:

i. ***Strengthening publicity and promotion efforts to enhance public understanding of different kinds of insurance and financial products that will help people plan their retirement life or manage their wealth;***

The IFPHK supports the proposal. As financial products become more complicated and sophisticated, for a market to perform effectively and consumers to be protected properly, a fundamental understanding of how these products work is essential. It echoes our principles of advocating financial planning and promoting financial education.

Despite the relatively high penetration of financial products in the Hong Kong market and their reasonable growth over the years, the general understanding of these products and how they could be used effectively in one's financial plan remain nebulous. Also, the shift away from defined benefit funds to defined contribution funds is part of an international trend, and the MPF system is one of the younger systems developed in recent years. It is apparent that most retirees receiving benefits from defined contribution plans confront several risks they have not faced before as individuals, including some that previous generations of retirees did not have to address. The importance of personalized financial advice for retirees from these plans is now greater than ever before.[38] Hence, financial planning services are very important for a

[37] Towards Retirement Security, Mandatory Provident Funds Scheme Authority, 2015
[38] Melbourne Mercer Global Pension Index, Australian Centre for Financial Studies, October 2013

healthy pension system, and the IFPHK and its CFP professionals are equipped with the knowledge, skills and experience necessary in assisting society in this respect.

Even people who may have incentives to save for retirement may not have the required knowledge about retirement planning to make informed decisions. The IFPHK suggests launching large-scale publicity and education programs to educate the public on the importance of insurance and financial products to help save money for future retirement costs. It would make sense for the Government to work together with the intermediaries (approximately 80,000) to champion this for the medium to long-term benefit of the market and consumers.

ii. Creating a favourable policy environment to encourage the market to develop more financial products for retirement investment and wealth management (such as annuity plans or retail bonds with longer term to maturity);

Asia's rapidly expanding senior markets present a broad range of potential opportunities and challenges. Death benefits are no longer the main need; today's necessities are protecting retirement income and assets to ensure both living costs and the widening scope of health costs and needs (especially nursing care)[39].

Even if people have proper knowledge and a willingness to save, they need to have access to appropriate investment products which give them reasonable rates of return. This is particularly important for small investors who cannot develop a diversified portfolio of investments, which limits their ability to save for retirement. Proper annuity products are required for people to address longevity risks. Annuities can substantially increase individual welfare by eliminating the income risk associated with the uncertainty of the timing of one's death, thus providing an individual with a higher level of lifetime consumption than he would otherwise enjoy[40]. If such products are not available in the market or are not offered by a credible organization, the government may need to be involved either as a provider or a regulator of relevant schemes or products.

Offering protection products to older individuals has never been simple. As seniors are a comparatively new risk category, the current underwriting rules may not necessarily be optimal for this segment. Additionally, pricing for older ages has always posed challenges, given the lack of sufficient relevant data[41]. There is more interest in annuity market research as pension reforms in many countries moved from the accumulation to decumulation phases. There is high uncertainty regarding aggregate longevity developments and their distribution across socioeconomic groups. The ongoing low interest rate environment and its stagnant long-term rates, coupled with customer preferences for products that offer either return of premiums upon death or the sum assured in case no other claims were made, are making certain traditional products even more expensive[42] and increasing the risks of the providers.

[39] Asia's Senior Markets: More opportunities than challenges?, Asia Insurance Review, December 2015.
[40] Robert Holzmann, Addressing Longevity Risk through Private Annuities: Issues and Options, University of Malaya & University of New South Wales, revised draft as of March 30, 2015.
[41] Asia's Senior Markets: More opportunities than challenges?, Asia Insurance Review, December 2015.
[42] Asia's Senior Markets: More opportunities than challenges?, Asia Insurance Review, December 2015.

Since the market environment affects product development, the IFPHK believes that the issue is not on product diversification but to match demand and supply. While the industry has to come up with a new underwriting approach, education is more important in order to drive the demand. Education may able to narrow the demand-supply gap. Annuities can be presented as a complex product with many options within and across providers that cannot be easily comprehended. Faced with such a complex decision, some may ultimately not make them. Limiting the number of options would reduce the complexity. The experience in Chile suggests that being able to compare different providers and products for key features, individual characteristics, and market conditions directly online reduces their complexity and simplifies decisions.[43]

The key role of government is to address market failures and redistribute incomes according to political objectives. It is important to the Government to make a political decision on the role private annuities should play in a retirement product landscape. Academia suggests some areas government interventions may be needed to establish a reasonably functioning annuity market. A life annuity market needs a functioning capital market that builds on a sufficiently deep and liquid market of government bonds of appropriate maturity. Annuity markets need government regulation and supervision due to main information asymmetries and gaps that increase with longevity. As aforementioned, a clear policy direction for each pillar is important, and the Government also needs to ensure consistency across interrelated policy areas, particularly tax policies across funded and unfunded pensions and the accumulation and decumulation phases. If the Government decides to offer guarantees for relevant annuity products, they need to be objective-driven and evidence-based, with appropriate co-insurance and caps reflecting incentives and fairness considerations. There should be an explicit process and political decision on centralized or decentralized annuity provisions based on evidence-driven assessments of private sector capability and public sector capacity to establish transparency and integrity. There should also be an explicit process and political decision on the public facilitations or provisions of hedging instruments for annuity providers, e.g. price indexed government bonds, etc.[44]

iii. Providing tax concessions to incentivize people to increase voluntary retirement savings for themselves and their families.

The IFPHK supports offering a tax incentive to encourage savings; however, we have doubts on the overall impact and effectiveness if the incentive is not substantial. The IFPHK feels that tax deductions alone are not appealing. It serves well as a sweetener to those who already have resources and the incentive to save, but the IFPHK believes that most of the people who would benefit would have already purchased retirement products or have saving habits.

With the support of Citi Foundation, the Hong Kong Council of Social Service conducted a study entitled “Hong Kong Financial Education Landscape Research” in 2015. It found that 56.3% of respondents do not have any personal budgeting habits. Comparing different income groups, 70.3% of respondents who earn less than HK$10,000 do not have these

[43] Robert Holzmann, Addressing Longevity Risk through Private Annuities: Issues and Options, University of Malaya & University of New South Wales, revised draft as of March 30, 2015.
[44] Robert Holzmann, Addressing Longevity Risk through Private Annuities: Issues and Options, University of Malaya & University of New South Wales, revised draft as of March 30, 2015.

habits. This low-income group is not covered by the taxation net. Thus, tax concessions would not have any significant impact on this group of people.

f) The CoP considers that the community should further explore the viability of the public annuity scheme. Do you agree with this proposed direction?

The Government would also like the public to discuss the public annuity scheme proposed by Dr. Law Chi-kwong. Under the proposed scheme, retirees and those who are going to retire may invest their capital (such as MPF accrued benefits and private savings, etc.) in an annuity scheme operated by the Government or a statutory body in exchange for a stable monthly income for the rest of their life. The CoP generally supports the concept of annuity.

The CoP considers that the community should further explore the feasibility of a public annuity scheme. Issues to be examined include the roles of the Government and the private market, the Government's financial commitments involved in the annuity scheme, whether annuitisation should be mandatory or voluntary, whether there should be guaranteed returns for annuities, the role of the annuity scheme in the whole retirement protection system and its relationship with other pillars.

IFPHK's Response

As aforementioned, offering protection products to the elderly has never been simple. As seniors are a comparatively new risk category, current underwriting rules may not necessarily be optimal for this segment, and the low interest rate environment worsens the situation in meeting the demand of seniors. Annuity for life (with or without guaranteed returns) needs very careful estimates regarding the longevity of the ageing population. Due to the increase in life expectancy, any institution which undertakes such a guarantee will also take on high risk. There are many examples in developed countries that financial institutions suffered huge losses due to the provisioning of annuity products.

While it is recognized that the demand for and provision of life annuities by the private sector will increase, annuitization in most of the world's countries remains low. In the US, only about 1% of retirees with 401(k) plans purchase annuities. The annual sums spent are quite small compared with the available resources at retirement. The situation in Australia is worse. Reportedly, only a few hundred annuities for life are bought annually in a market of a few million retirees. The limited market outcomes for life annuities may reflect both limited demand and the result of limited and decreasing interest by insurance companies to supply such products.[45]

It is always believed that the private sector is more efficient and cost-effective in the provisioning of financial products and services. The use of a government body for providing annuities, however, is a better option than enlisting a private institution, since the government should have more resources in hand to bear any potential losses arising from incorrect estimates. The public needs to be informed that the cost of providing this service could be high and may need to be funded by public revenue. There should be further studies conducted on the feasibility of providing a public annuity scheme. The IFPHK would also like to remind everyone that a mandatory annuity scheme would mean that no one would be allowed to elect to receive lump

[45] Robert Holzmann, Addressing Longevity Risk through Private Annuities: Issues and Options, University of Malaya & University of New South Wales, revised draft as of March 30, 2015.

sum payments, which may not fit the objective of those who want to live in other countries or have plans to use the pension fund for other purposes. So it might be difficult to achieve a consensus. A voluntary public annuity scheme, on the other hand, may be costly, since it may require a lot of administrative work.

If the public annuity scheme was too generous compared to individual preferences and needs, in particular for higher income groups, it would not lead to higher private annuity demand. Such public over-annuitization has and may still exist in a number of European and other countries. Yet, the optimal public annuitization rate is still undecided.[46]

The Government may wish to study the Chilean experience. Chile, the originater of the defined contribution public pension reform revolution, allows individuals to choose between some phased withdrawals and full life annuitization, and about 70% of retirees choose the latter.[47] Annuity products can be very complex. The Chilean experience suggests that enabling the comparison of different providers and products online for key features, individual characteristics and market conditions reduces their complexity and simplifies decisions for the public.

The fourth pillar – public services

g) ***An ageing population will lead to a drastic increase in demand for healthcare and elderly services. How should we ensure the sustainability of this pillar and plan the software and hardware facilities (including land, manpower and services delivery) for various services to meet future needs?***

   The CoP recognizes that the elderly are particularly concerned about their health conditions and the availability of appropriate healthcare services when they are sick. The public healthcare system provides the elderly and other members of the public with access to healthcare services at highly subsidized rates. The underlying principle is that no elderly person will be denied adequate medical care due to a lack of means.

IFPHK's Response

Our views on the healthcare industry were enunciated in our two previous submissions to the Consultation Papers on healthcare reform. The report "Live Long and Prosper: Ageing in East Asia and the Pacific" called for a paradigm shift in the ways that health, pensions and long-term health care are delivered and financed across the region. The report suggests that governments transform healthcare systems into a model focused on primary care, with improved care management across levels of the healthcare system, efficient care delivery, and better prevention of non-communicable diseases. Healthcare systems would also need to address old-age diseases, such as dementia, and develop long-term care policies that combine traditional family support with strengthened community and home-based care systems[48].

Some medical practitioners highlight that the acute problem of Hong Kong is the serious shortage of family doctors in both the public and private sectors. Family doctors who have developed

[46] Robert Holzmann, Addressing Longevity Risk through Private Annuities: Issues and Options, University of Malaya & University of New South Wales, revised draft as of March 30, 2015.
[47] Robert Holzmann, Addressing Longevity Risk through Private Annuities: Issues and Options, University of Malaya & University of New South Wales, revised draft as of March 30, 2015.
[48] Asia's Senior Markets: More opportunities than challenges?, Asia Insurance Review, December 2015.

ongoing relationships with their patients can act as gatekeepers for secondary healthcare. The strengthening of family doctors through community care could also increase the referral of non-acute patients to special outpatient clinics and alleviate the overcrowded conditions of public hospital services. As such, the Government should continue to study the enhancement of primary care.

As enunciated in our previous submission on healthcare reform, there is no constructive proposal on long-term care financing. Long-term care refers to a continuum of services to assist an impaired person to function in daily living. It covers both community services and residential services. Community long-term care is provided predominantly by non-governmental organizations (NGOs) receiving funding mostly from the Government, supplemented by donations and user fees. As for residential care services, they are delivered by a mix of NGOs and private providers. Some NGOs receive heavy subsidies from the Government. There are also long waiting times for long-term care facilities. Waiting times for a place in subsidized care and attention homes was around 22 months, and for nursing homes 40 months. It has been alleged that around 5,000 elderly people die every year while waiting for a place in a subsidized nursing home[49].

In Japan, the Financial Services Authority ("FSA") launched a campaign called "Financial Concierges". It is a pilot programme launched in hospitals and nursing care facilities. The campaign primarily focuses on the elderly, offering patients and their family members free financial-related consultations. CFP certificants in Japan volunteered to offer free and objective advice for this programme.

The fourth pillar – self-owned properties

h) The CoP considers that innovative approaches should be identified to help the "asset-rich, income-poor" elderly increase their retirement income. As properties are valuable assets, the reverse mortgage market in Hong Kong has great potential for development. The CoP proposes improving the operational details of the Reverse Mortgage Programme and strengthening publicity to make it more appealing to the elderly. The CoP also proposes integrating the efforts of various sectors (such as social enterprises) to help elderly people let out the whole or part of their properties to supplement their retirement income with rental income. Do you support these proposals?

In Hong Kong, properties are valuable assets. The CoP noted that there are more and more elderly singletons and two-person elderly households residing in self-owned properties with no mortgage. The proportion of these households increased from 60,000 or so in 2004 to about 120,000 in 2014. The CoP considers that given the trend of population ageing and longer average life expectancy, the reverse mortgage market in Hong Kong has great potential for development.

The CoP is also aware that the tradition of passing on property ownership to one's own children or relatives is still common in the elderly community. As such, the CoP proposes integrating the efforts of other sectors to help elderly people let out the whole or part of their properties. This will release the value of the properties and bring rental income to the elderly while enabling them to

[49] Peter Yuen, Financing Health Care and Long-term Care in a Rapidly Ageing context: Assessing Hong Kong's Readiness

retain ownership. The housing resources could also be better utilized to address the housing needs of other households.

<u>IFPHK's Response</u>
A financial planner is someone who uses the financial planning process to provide a client with integrated strategies to achieve financial and life goals. A financial planner typically reviews relevant aspects of a client's situation across a large breadth of financial planning activities, which may include financial management, asset management, risk management, and tax planning, retirement planning and estate planning. Self-owned properties are important elements in financial plans and should not be considered separately.

In Japan, the Ministry of Land, Infrastructure, Transport and Tourism is launching a campaign called "Cultivation of experts to vitalize the existing home market". Experts who are able to provide advice on financial plans are being recruited from various organizations. CFP certificants in Japan are invited to participate in this campaign.

The fourth pillar – family support

i) ***The CoP sees the need to explore further how we can encourage and facilitate family support for the elderly through public policy measures. Do you have any specific proposals?***

About 76% of the elderly are currently living with their families or relatives. This reflects the importance attached to family values in our community. The CoP noted that there are various policy initiatives in place to encourage support and care for elderly family members. Besides, the Census and Statistics Department conducted a Thematic Household Survey on "Retirement Planning and Financial Situation Old Age" in 2012. The results showed that nearly 80% of the respondents opined that they themselves, their children/grandchildren and their spouse should be most responsible for providing their financial protection after retirement or in old age. The CoP reaffirms the important role of the family in caring for the elderly, and the need to encourage and facilitate family support for the elderly through public policy measures.

<u>IFPHK's Response</u>
Providing income security in retirement to an ageing population is an issue of paramount importance faced by many societies. Policymakers, academics and pensions experts continuously explore the best ways to enhance retirement income security for the aged on the one hand, and avoid excessive financial burden on society on the other. With changing social values, increasing labour mobility and rapidly ageing populations, assistance from family members can no longer be regarded as a reliable and sustainable source of support to the aged. The tradition of relying on family support in old age is eroding in a number of countries. Older people in the region depend on their own work, instead of family and state support, as their primary source of income. A large share of people work well into their 70s, even in richer countries such as Japan and Korea, However, some urban workers, especially women, often retire too early due to the incentives built into pension and taxation systems.[50]

[50] Asia's Senior Markets: More opportunities than challenges?, Asia Insurance Review, December 2015.

Though the IFPHK agrees that family support is still important in supporting the multi-pillar approach, everyone should be responsible for his or her own retirement. Financial education should stress the importance of individual responsibility.

Public education

j) ***The CoP considers it necessary to step up promotion and publicity with a view to increasing public understanding and acceptance of the MPF System, and enhancing public awareness of the importance of retirement planning and the advantages of early savings, including how to calculate one's financial needs after retirement and accumulate sufficient retirement income. Do you agree with these ideas? What specific proposals do you have?***

As stated in the Consultation Paper, more than 40% of the respondents have not made preparation for their own retirement according to the thematic household survey conducted by the Census and Statistics Department in 2012. The CoP considers it necessary to step up promotion and publicity with a view to increasing public understanding and acceptance of the MPF system, and enhancing public awareness of the importance of retirement planning and the advantages of early savings, including how to calculate one's financial needs after retirement and accumulate sufficient retirement income.

IFPHK's Response

Notwithstanding the priority to tackle the fast-ageing population, there is a general lack of understanding on financial planning, the MPF System and retirement planning as shown in various surveys. A survey by Towers Watson shows that 66% of respondents have a good impression regarding MPF Investment, yet close to 90% (87%) spend little or no time managing their MPF accounts. Over 40% of the employees surveyed consider HK$5 million to be sufficient for their retirement but 90% of them rarely if at all spend time managing their MPF accounts.[51] With the support of Citi Foundation, the Hong Kong Council of Social Service conducted a study entitled "Hong Kong Financial Education Landscape Research" in 2015. It found that 56.3% of respondents do not have personal-budgeting habits. Comparing different income groups, 70.3% of respondents who earn less than HK$10,000 do not have such habits. It also indicated that young adults have limited awareness towards financial management. In particular, only half of the respondents consolidate their personal MPF accounts despite the fact that the MPF System is highly relevant to one's retirement protection.[52]

In global consumer research conducted by the FPSB, Hong Kong consumers have slightly lower than average confidence when it comes to achieving their financial and life goals, with just 19% agreeing that they had strong confidence (compared to 22% globally). Hong Kong consumers are slightly less confident than consumers globally regarding feeling successful about sticking to their financial strategies. 42% of respondents choose retiring in their desired lifestyle as a financial priority and Hong Kong respondents are broadly interested in financial planning services, with investment planning and retirement planning seen as the most helpful services.[53]

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[51] MPF Performance satisfies 66% of older employees in Hong Kong, Towers Watson, 23 July 2013

[52] Press Release "Hong Kong Financial Education Landscape Research", The Hong Kong Council of Social Service, 26 January 2016.

[53] The FPSB, in partnership with GfK, conducted a global consumer survey on the value of financial planning and awareness of CFP Certification. From 22 June to 26 July 2015, a total of 19,092 adults who have primary or shared responsibility for household financial decisions were interviewed.

As stated by the OECD's recommendations on good practices for financial education relating to private pensions, financial education is particularly important in the private pension field due to the unique nature of these financial products, which are complex, exceptionally long-term contracts with wide social coverage. Financial education specifically related to retirement products should help to promote understanding of the changing retirement environment, the need for long-term savings, and of investment products. Research shows that people who are more financially literate do a better job saving, investing and managing their payouts in retirement.

The Investor Education Centre ("IEC") was established in November 2012, as a subsidiary of the Securities and Futures Commission ("SFC"), to take a holistic approach to improving financial literacy in Hong Kong. The IFPHK has been a big supporter of the IEC since its inception. Our directors hold positions in the advisory group and a number of IEC taskforces. Over the past 16 years, the IFPHK has a track record of advocating the provision of financial education to consumers. Each year, the IFPHK sends volunteers to participate in "exhibitions" organized by the MPFA in which our volunteers offer neutral one-to-one product and sector financial counseling to consumers. The IFPHK was the main supporting organization to the IEC's workplace financial education program, in which our volunteers provided objective financial counseling to employees close to retirement. In light of the above, we have specific comments on financial education:

Consumers should possess the ability to understand a financial plan.
Financial planning is the process of setting, planning, achieving and reviewing life goals through the proper management of finances. It requires extensive knowledge and training to develop a financial plan and we suggest that qualified financial planners should do it. To us, a qualified financial planner is someone who uses the financial planning process to provide a client with integrated strategies to achieve financial and life goals. A financial planner typically reviews relevant aspects of a client's situation across a wide breadth of financial planning activities, which may include financial management, asset management, risk management, and tax planning, retirement planning and estate planning. A financial planner integrates all of this financial knowledge and client information to develop a financial plan that is tailored to that specific client. While everyone should possess the ability to understand a financial plan, the IFPHK doubts whether most individuals would be able to develop their own financial plan without having the vigorous certification requirements of a Certified Financial Planner.

Consumers should be equipped with the ability to choose a financial planning professional.
The financial planning professional works with the client to identify all relevant parameters for the development of a financial plan. He or she is required to collect and properly document quantitative and qualitative data, which might include (but is not limited to) the client's background, financial condition, investment experience, attitude towards risk and capacity of loss, in order to enable the provision of suitable recommendations and advice for products or services appropriate for the client. While the role of an adviser or financial planning professional is to help a client make an informed investment decision, it is ultimately the client who makes the investment decision. The IFPHK believes that when intermediaries are in direct contact with clients, they can help promote consumer protection by assisting them make better-informed decisions on what products to buy. Currently, there is a swathe of different types of advisers in the financial services industry and each can have different qualifications and accreditation that often means nothing to the average consumer. To the IFPHK and its global counterparts, it has become increasingly important that consumers be able to differentiate financial planners from licensed product sellers

and financial advisers. A global consumer survey conducted by the FPSB (of which the IFPHK is an affiliate) and GfK showed that while just 29% of respondents in Hong Kong were unsure whether financial planning is regulated (vs. 41% globally), 95% believe it is important for financial planning to be regulated (vs. 79% globally). The IFPHK feels that qualified financial planners have the responsibility to educate consumers on the products and services they are offering so that the consumers are empowered to make informed decisions.

Raising the professional standards of intermediaries

The IFPHK has always believed that qualified intermediaries and well-informed and educated consumers, together with a robust regulatory framework, should form the core pillars of assurance for the benefit of the investing public. If the professional standards of financial intermediaries do not keep up with the demands of the market, even if all stringent regulatory measures were in place, Hong Kong would not be able to maintain its reputation as an international financial centre and therefore grow its financial services industry. Since its inception, the IFPHK has been striving to promote public awareness of the financial planning industry in Hong Kong and uphold the standard of CFP professionals by providing guidance notes and continuously improving the certification programme[54].

As aforementioned, we are concerned that the proposals put forward may encourage inertia and increase public apathy on people's responsibilities towards their retirement savings. The IFPHK advocates the importance of financial planning services, financial literacy and personal responsibilities towards retirement savings. We also believe that intermediaries can play an important role in delivering financial education. If the industry implemented a proper financial education program throughout a scheme member's working life, it would find a much higher level of member engagement.

In this year's Budget speech, the Financial Secretary said that the manpower shortage in the financial services industry is particularly pronounced in the insurance sector and the asset and wealth management sector. So $100 million is being allocated to take forward a three-year pilot programme to tackle this shortage. The Government intends to provide financial subsidies to practitioners to attend training courses to enhance their professional knowledge and competency. To attract more new blood to the financial services industry, the Government will offer university students internship opportunities to enhance their understanding of the job nature and career prospects of the sectors. The IFPHK thinks that it is not the quantity but quality of the practitioners that matter. At present, there are about 80,000 practitioners with only about 4,700 CFP certificants. There is a swathe of different types of advisers in the financial services industry and each can have different qualifications and accreditation that often means nothing to the average consumer. Instead of focusing on attracting new blood to the industry, the money would be more effectively used in enhancing the professional standard of practitioners by requiring them

[54] In 2006, with contributions from the patrons of leading industry practitioners and experts, the IFPHK published *The IFPHK Practice Guide for Financial Planners*. The Guide is the first set of guidance materials for financial planners to practice in Hong Kong. To supplement this effort, the IFPHK also launched the first *Guidance Notes, Suitability of Advice Obligations: Documenting your Financial Advice* for members. The IFPHK also participated in a global job analysis review and international studies on financial planning job skills analysis. Through this process, the IFPHK gained professional insights into core characteristics and practices vis-à-vis Hong Kong's financial planning practitioners and international CFP professionals. Based on the result of the job analysis, the IFPHK has made considerable efforts in revamping the certification programmes. In June 2011, the IFPHK introduced Associate Financial Planner ("AFP") certification to attract the broader population of the financial planning industry and thus also raise the overall standard of the industry.

to obtain some internationally recognized professional designation. We would also like to suggest a review on the use of titles and designations (for practitioners selling financial products), including whether they should be regulated to make them more transparent, impartial and easy for consumers to understand.

Regulators in overseas jurisdictions realize the importance of having qualified and competent financial planners and advisers. As such, they have introduced policy changes to raise the minimum standards of the industry and many of them achieve it by partnering with professional organizations. The Retail Distribution Review ("RDR") in the United Kingdom put forward several changes that have had significant impact on the industry. One of the changes is to require higher minimum entry requirements for front line staff empowered with the important task of providing financial advice to consumers. The Future of Financial Advice ("FoFA") of Australia requires financial advisers to undertake a "knowledge update review" every three years and new financial advisers have to be supervised for a year by a planner with at least five years' experience. The Monetary Authority of Singapore ("MAS") announced the FAIR Panel Report, which made 28 recommendations under five thrusts, in 2013. One of the recommendations is to raise the competence of financial advisory representatives by raising the minimum entry requirements for new entrants and requiring financial advisers to undergo at least 30 hours of formal training annually. Also in 2013, the Securities and Exchange Board of India ("SEBI") issued its finalized investor adviser regulations. The SEBI requires all advisers to have a post-graduate diploma in a finance-related subject or five years industry experience.

Practitioners in the financial services industry who have knowledge of current retirement issues in Hong Kong, and who are able to give essential and practical advice on retirement products to Hong Kong clients are in high demand and will continue to remain so in the long term. In light of the demand for qualified advisers, the IFPHK has launched a locally developed designation, Qualified Retirement Advisor ("QRA"), to enhance the practitioners' ability to advise on retirement products.

Provision of objective advice

In our submission to previous consultation papers on Financial Literacy Strategy and Financial Competency Framework, the IFPHK recommends that the government spend more on financial counseling and coaching. The IFPHK highlighted that providing objective advice should be clearly differentiated from financial advice and actions of a commercial nature. Objective advice as opposed to advice of a commercial nature is in the OECD's definition provision of counsel to consumers regarding generic financial issues and products, so consumers can make the best use of the financial information and instruction they have received. It is particularly useful for retirement planning. As suggested by the International Organization of Pension Supervisors, providing customized advice to members may be a particularly effective form of delivering the right mix of information and education. Such advice may make it unnecessary to supply detailed information on all possible options available and therefore allow for greater focus on the quality and customerization of information[55]. Consumers can benefit from personalized financial coaching, and other countries' experiences show that credit counseling leads to a decrease in indebtedness. Other advisory methods such as telephone and online chat helplines can also be considered.

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[55] Ambrogio I.Rinaldi and Elisabetta Giacomel, Information to members of DC pension plans: conceptual framework and International Trend, September 2008.

In New Zealand, the Commission for Financial Capability promotes the benefit of financial planning (short, medium and long term) and risk management. It also targets growing innovative and accessible channels offering qualified financial advice. In Australia, one of the core actions is to deliver Commonwealth and state-funded financial counseling programmes and services.

A number of objective and free advice consultations have been conducted in Japan, to which the Japan Association for Financial Planners ("JAFP"), an affiliate member of the FPSB, sent CFP-certified volunteers. Examples of these events include the following:

- The Financial Service Authority's ("FSA") Campaign for consumers is called "That's what I want to know! Future life planning". The purpose of the event is to offer free consultations, keynote speeches and mini-seminars to improve financial literacy.
- Another FSA campaign called "Financial Concierges" is a pilot programme launched at hospitals and nursing care facilities. The campaign primarily focuses on the elderly and offers patients and their family members free financial-related consultations.
- The Ministry of Education, Culture, Sports, Science and Technology has launched a campaign called "Academic Support Advice". The aim of the campaign is to support vocational school students so that they do not need to quit school because of financial reasons. Academic support advisors are being assigned to all prefectures.
- The Ministry of Land, Infrastructure, Transport and Tourism is launching a campaign called "Cultivation of experts to vitalize the existing home market". Experts who are able to provide advice on financial plans are being recruited from various organizations.

The IFPHK and its members are committed to both ensuring that the public understands what financial planning is and providing qualified consultants to deliver such services. As a result, the IFPHK will continue to support financial education initiatives within our resource constraints.