Plan Ahead For A Worry-free Retirement 2018 Edition

HSBC Life

Contents

Introduction

A lot of people dream of life in retirement, when one can really live without work stress. But not many are clear about retirement expenses or financial solutions available to them, as they have never envisioned retirement life in a realistic way. Other shave not saved adequately, or find it hard to make ends meet even when retirement is near. Unfortunately for them, work rather than retirement seems to be the only available option.

Retirement is one of the most important things in life that deserves thorough considerations, careful planning and precise actions. To pave way for your preferred lifestyle in retirement, you need to know your own needs, budget for future living expenses, and find effective investment or financial plans that can secure adequate reserves and stable income for your retirement.

Get started today to draw up your own retirement plan. You deserve a comfortable and fulfilling retirement life!

1 Myths about retirement

Most people picture themselves leading a leisurely, comfortable life in retirement. For those who wish to continue with your good living standard after retirement, be sure to act now. Start with a list of all things to be considered, and get to the details in your planning - well ahead of time.

Life expectancy

To start with, consider the average life expectancy figures, which help us to project life expectancy after retirement. Longevity is a blessing and the key consideration in retirement planning. Hong Kong has the highest average life expectancy globally[1], and our elderly population are expected to live even longer. As the population continues to age, dependency ratio will rise, making it necessary to plan early for one's retirement expenses, if you look for security in retirement.

Life expectancy projections[2]

	Average age - males	Average age - females
2016	81.7	87.7
2066	87.1	93.1

2016 — Supported by **4.3** adults of working age[2]

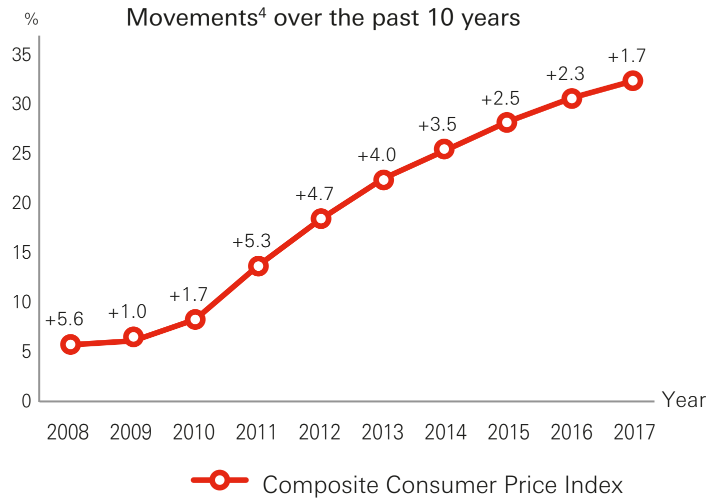
2066 — Supported by **1.5** adults of working age[2]

1 per retiree

Living expenses

Soaring price indices will inevitably impact on retirement life, as all daily expenses will be affected. Spiraling inflation brought a cumulative price rise of 32.3% during the decade from 2008 to 2017. Hence, calculations for retirement expenses should factor in the impact of inflation, in order to have realistic estimations of future spending.

Consumer Price Index - Movements[4] over the past 10 years



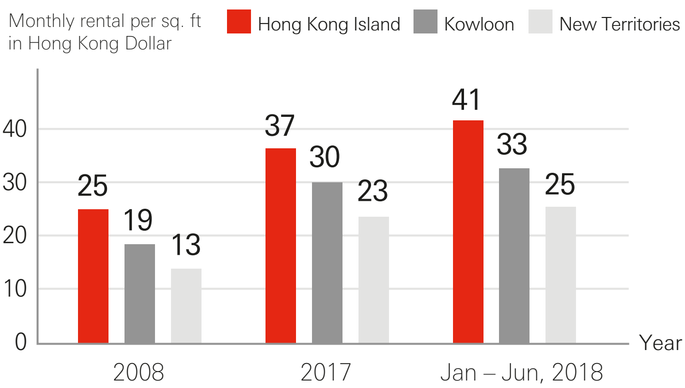
Denotes the rate of change after netting out the effects of all Government's one-off relief measures, including electricity subsidy, rental waiver for public housing and rates concession.

1 International comparison of life expectancy 2017, Ministry of Health, Labour and Welfare, Japan
2 Hong Kong Population Projections 2017-2066, Hong Kong Census and Statistics Department, Sep 2017 (Data from 2016)
3 Household expenditures 2014/15, Hong Kong Census and Statistics Department
4 Hong Kong Census and Statistics Department: Annual Report on Consumer Price Index published on 27 Feb 2018

Housing expenses

Housing affordability in Hong Kong is ranked the lowest amongst all major cities in the world, with median house price standing at 19.4 times[5] of median household income. This indicates that even if a family puts all its income on housing, it would take 19.4 years to pay off the price of their home. Average rental of private housing also went up significantly between 2008 and 2017. Against these trends, it is wise to draw up your own savings plan to cover your needs in retirement.

Average rental of private residential units – size between 40 - 69.9 sq. m (approx 430.56 - 752.4 sq. ft)[6]



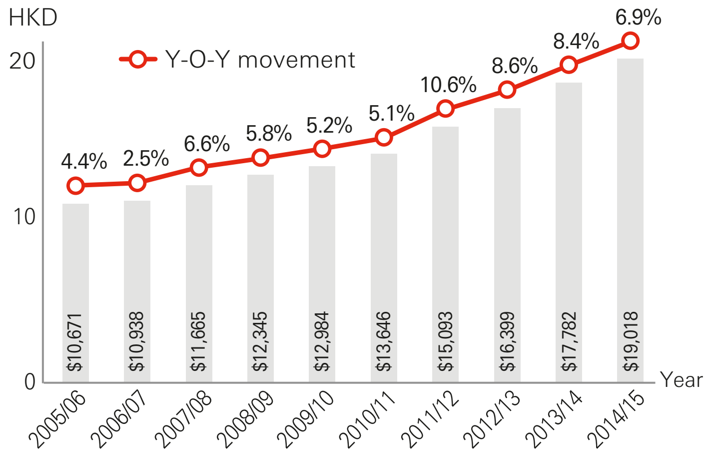
Retirement is one of the most important things in life that deserves early planning and precise actions. Say no to retirement hardship and do what you can to prevent regrets of not having saved enough - before it's too late.

5 2017 Demographia International Housing Affordability Survey by international public policy consultancy Demographia
6 Rating and Valuation Department - Private Domestic – Average Rentals by Category (as of June 2018)

Healthcare and medicine

Medical expenses could be a hidden drain in your retirement savings, as the average medical bill per head continue to rise each year, reaching HKD 19,018[7] in 2014/15. Widespread incidences of overweight, obesity, high blood pressure, diabetes and hyper cholesterolemia among Hong Kong residents reflect that they are at higher risks of cardiac-vascular diseases or cancer. As people age further and their physical conditions deteriorate, medical bills will go up significantly.

Average domestic health expenditure per head



Incidence of illnesses by age group[8]

	Aged 65-74	Aged 75-84	Aged 85 or above
Cancer	3.2%	4.7%	4.9%
Stroke	4.6%	7.8%	5.7%
Coronary heart disease	5.6%	9.9%	12.0%
High blood cholesterol	33.6%	39%	26.5%
High blood pressure	45.8%	64.6%	61.2%
Diabetes	16.6%	22.7%	17.3%

Elderly care

Retirees would prefer "Ageing in place", i.e. live in their own homes or where they choose as they grow older. However, given their individual health or family considerations, some may need to go to residential care homes or nursing homes, which means additional spending. Government residential care services are more affordable but the queue is long. In general, it takes 37 months to be allocated a place at care and attention homes (subsidised and contract homes), or 24 months for nursing homes. To make sure the right kind of service is available, some may go for private elderly homes according to their personal preference and care needs. A wide range of variance exist in the living environment, facilities and service levels of Hong Kong's elderly homes, where the monthly fees also vary with the size and class of room chosen, and whether the room has its own door and windows, or enjoys a good view. Again, budgeting for this cost in advance helps to ensure quality care is available when residential home care is necessary.

Private elderly homes	
Fees	Basic annual fees range from HKD 54,000 (for a residential place of low service level) to HKD 252,000 (for a deluxe single room).[10]
Miscellaneous fees	Various charges apply, including out-patient escort fee, electricity, toilet papers, initial administration fee, healthcare-related fee, etc.

7 Food and Health Bureau, Hong Kong: Domestic Health Expenditure
8 Department of Health, Hong Kong: Report of Population Health Survey 2014/15
9 Social Welfare Department statistics: waiting list for subsidized residential care services for the elderly
10 Consumer Council's Choice Magazine Article, Issue No.467, 15 September 2015: Huge difference among residential care home charges with various miscellaneous items

Comprehensive plans for saving and protection are vital for your goals – whether to stay healthy, achieve retirement goals or build adequate reserves

Retirement reserves

Knowing the total amount of money required for your retirement, you can then set out to put your plan into action. Around 85%[11] of Hong Kong's working population have some sort of protection from Mandatory Provident Fund (MPF) Schemes, Occupational Retirement Schemes (ORSO), statutory pension or other provident fundschemes. However, it is well understood that the limited protection from these plans may not be able to see you through retirement.

According to a survey by the Hong Kong Investment Funds Association in 2017, an individual will need to save HKD 3,100,000 on average in order to maintain their current living standard in retirement. However, respondents of the survey expect to have saved only HKD 1,200,000 by the time they retire, leaving a gap of HKD 2,000,000. To cover living expenses for 20 years of retirement life, they would need to put in an additional 13.6% of MPF contribution, apart from the 10% monthly contribution currently.

In another survey, respondents estimate they need an average of HKD 6.32 million[13] in retirement savings, while more than 50% say they have to continue working after retirement at age 65, to fill the funding gap. Only about one-third of respondents have a regular habit to save for retirement.

Retirement protection solutions

To better protection yourself and family against different contingencies, you should get adequate insurance coverage before you retire, including hospitalisation, critical illnesses, as well as medical and life insurance. Special attention should be paid to policy restrictions on insurance issue age and subsequent renewal conditions.

Life savings plan

Life insurance plans are meant to provide much-needed financial protection for family members in case of contingencies. Among the wide range of life insurance plans available, many come with savings-related features. Some "savings life plans" are structured for retirement goals, providing life protection along with wealth accumulation, with an opportunity to participate in dividend sharing. The insured will also have the flexibility to adjust the ratio between life and savings protection, premium payment period or coverage amount, to suit evolving needs.

11 Mandatory Provident Fund Schemes Authority website: "Background" section
12 Hong Kong Investment Funds Association news release: Making good use of the five pillars of retirement protection to build a comfortable retirement
13 A new cross-generational study "The financial fitness snapshot survey" conducted by the Investor Education Centre (IEC) in Q2/2017

Annuity plan

Apart from investments in property and financial instruments, annuities may be a good option for retirement income. The "Hong Kong Mortgage Corporation Annuity Plan" (HKMC Annuity Plan) launched by the Hong Kong Mortgage Corporation Annuity Limited offers a new financial option. It offers steady and lifelong retirement income for retirees aged 65 and above. The lumpsum premium under the plan is set between a minimum of HKD 50,000 and a ceiling of HKD 1,000,000, with guaranteed cash amount at 105% of premiums paid. For a premium of HKD 1,000,000 paid, a 65-year-old male would be able to have a monthly income of HKD 5,800, while a female would receive HKD 5,300 each month[14].

Other kinds of annuities are offered by various insurers, providing regular income for retirees in the form of monthly annuity payments as well as life protection, to cover their financial needs at different stages of life.

Features of immediate annuity versus deferred annuity

HKMC Annuity Plan - Immediate annuity	Deferred annuity
Issue age: 65	Issue age varies with different insurer
Premium paid in one lumpsum, with immediate monthly annuity payment to the insured	Premiums paid for a certain period of time when the insured is younger. Options available in terms of contribution amount and tenure.
Capped at HKD 1,000,000 ceiling	Options available in terms of insurance amount and annuity income amount
Annuity payment begins in the same month as premium is paid, ensuring immediate income stream throughout the life of the insured.	Annuity payments begin only after a specified time, or when the insured reaches a specified age. Annual or monthly payment options available.
Guaranteed income	Guaranteed/ non-guaranteed income option available
Currency: HKD	Currency: various currencies *subject to offers by individual insurance company

The above information is for reference only and is not the result of exhaustive particular product feature. Further enquiries should be directed to professional advisers.

To cater the increasing demand from Hong Kong people for different financial solutions in retirement planning, the Hong Kong Financial Budget reveals that the Insurance Authority will come up with guidelines of annuity products that qualify for tax deductions[15] on annuity contributions. It is hoped that this would provide greater incentives for further development of deferred annuities. Non-retirees may also benefit by taking out an annuity product that suit their needs, so that together with their voluntary MPF contributions, they could fully utilise the maximum tax deduction of HKD 36,000 per year[16].

Medical insurance plan

Just in case you require medical services from private hospitals or need to undergo an operation, medical insurance plans would enable you to make financial planning according to your health needs. Most medical insurance products on the market require higher premiums as the insured grows older, and the policy is subject to renewal and premium upscaling every year. If you take out your medical insurance while you are relatively young and healthy, you can take advantage of the lower premiums and wider coverage. Some insurers offer lifelong medical insurance plans that may guarantee renewal up to age 100[17].

14 Example and case quoted on Hong Kong Mortgage Corporation Annuity Plan webpage
15 Hong Kong Financial Budget 2018/19
16 Discussion paper for Legislative Council Panel on Financial Affairs, 15 May 2018
17 The Hong Kong Federation of Insurers: Seven points to consider for selecting a suitable insurance

2
Four-step approach to retirement planning

Retirement is one of the most important checkpoints for your wealth planning. Go through the following four-step approach and gain better understanding of all fine points you need to know in your planning process. We hope this may help to sharpen your focus and point to the right direction in your preparations.

1 Understand your requirements, risk profile and wealth planning

- Seek professional advice in your financial planning
- Use technical tools for more efficient goal-setting for your retirement

You may find your financial status a bit complicated, or you do not have much knowledge of financial markets and investment products. And the stressful work life leaves you with no time or energy to manage your own financial planning. Try to seek assistance from financial planning. You will see how suitable financial plans help to cut down costs and prepare you well for retirement.

2 Build adequate reserves

- Form the habit of saving regularly, and follow your goals in investments
- Keep a diversified investment portfolio
- Widen your income scope

You should monitor closely all factors that may impact on your retirement plan, including significant changes in financial markets, rules and regulations and personal financial conditions.

3 Plan early for retirement saving

- Budget for your expenses in retirement
- Pay attention to impacts from inflation
- Planning early brings more opportunities to leverage the compounding effect for better investment returns
- Take appropriate risk management measures

A wide range of factors may impact on your retirement plan, including market volatilities, low interest rates, inflation risks, as well as soaring medical costs. You will find it easier to face these movements as you strengthen your knowledge about financial planning.

4 Get ready for contingencies

- Take out insurance plans that offer extra protection features
- Plan your medical expenses after retirement
- Start planning early if you are looking to move overseas for retirement
- Make use of wealth heritage planning

Delays in retirement planning may result in your extended stay in work life, reduced disposable income, or indirectly impact on your health. Planning early will make life easier for you in retirement.

Retirement plans should cover a wide range of factors. Start with a thorough understanding of your needs and risk profile, and follow up with professional advice and prompt actions in preparing for your future requirements.

3
How to achieve an ideal retirement

Everyone has his own expectations about retirement. Some like a quiet relaxed lifestyle, while others look for fresh experience and activities. The HSBC Retirement Monitor is a useful tool providing reference in retirement planning for you and your partner. The report gives quarterly updates on prices of goods and services, complete with monthly budgets for itemized spending budgets tailored for singles or couples. The updates are presented in details according to four different lifestyles, i.e. basic, modest, comfortable or affluent.

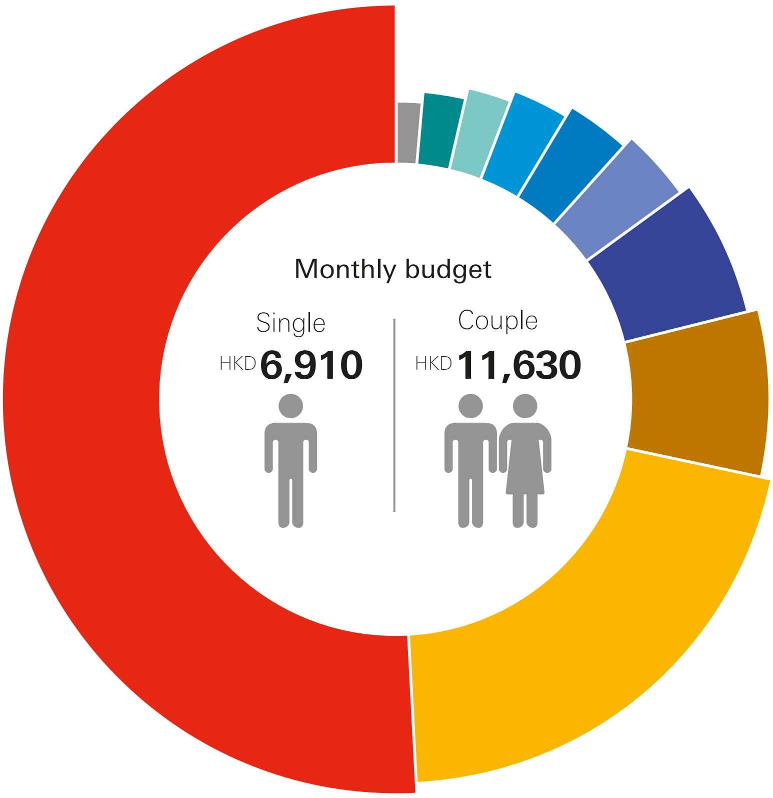
You may wish to use the four-step approach and the HSBC Retirement Monitor (Fourth Quarter, 2018) as tools for overall review and come up with a retirement plan that suits you best.

Basic lifestyle

Make ends meet and maintain a basic life

Assumption:
Living in public housing*

Budget for basic lifestyle for retired singles or couples



%	Item	Single (HKD)	Couple (HKD)
51.1%	Food	3,530	6,855
20.8%	Housing	1,440	1,725
7.2%	Water, electricity and gas	500	640
6.1%	Leisure and entertainment	420	795
3.3%	Communications	225	300
3.0%	Transportation	205	315
2.8%	Household goods and services	195	195
2.2%	Clothing	150	315
2.2%	Fitness, beauty and hairdressing	150	290
1.4%	Health care	95	200

Above chart and percentage are based on the budget for retired singles.

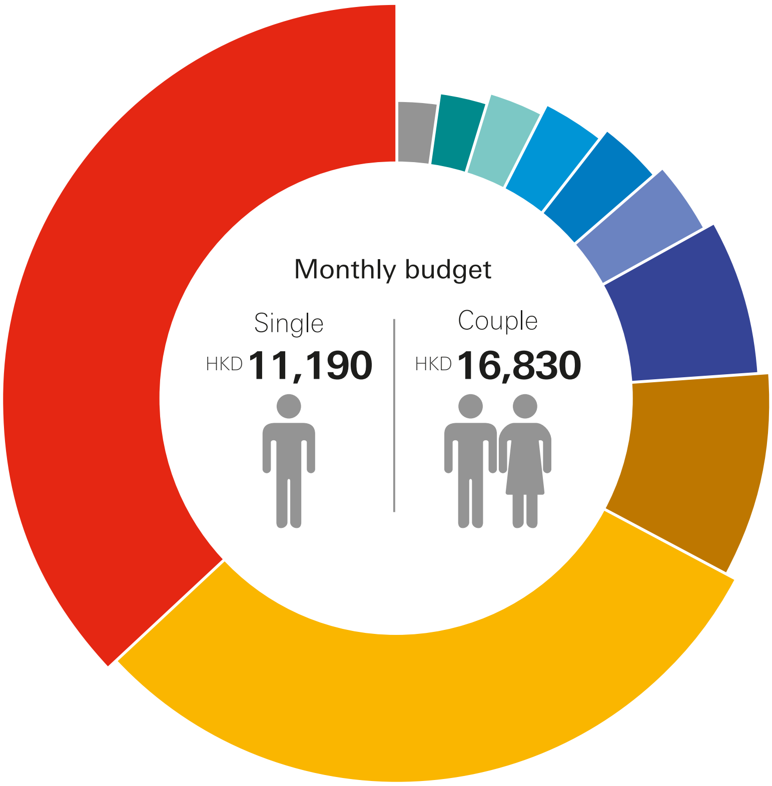
* Extra budgets should be allowed for if living in private rental flat. Referring to the 'Hong Kong Monthly Digest of Statistics (November 2018)' published by the Census and Statistics Department of Hong Kong Special Administrative Region, as at September 2018, the average rents of fresh lettings of private domestic premises is HKD266-504 per square metre per month.

Modest lifestyle

Be worry-free and lead a modest life

Assumption:
Living in a private flat with no mortgage*

Budget for modest lifestyle for retired singles or couples



%	Item	Single (HKD)	Couple (HKD)
37.1%	Food	4,155	7,785
30.2%	Housing	3,375	3,375
9.0%	Leisure and entertainment	1,010	1,650
6.8%	Water, electricity and gas	765	945
3.3%	Clothing	365	725
3.2%	Transportation	355	540
2.9%	Communications	325	460
2.9%	Household goods and services	325	350
2.5%	Health care	275	560
2.1%	Fitness, beauty and hairdressing	240	440

Above chart and percentage are based on the budget for retired singles.

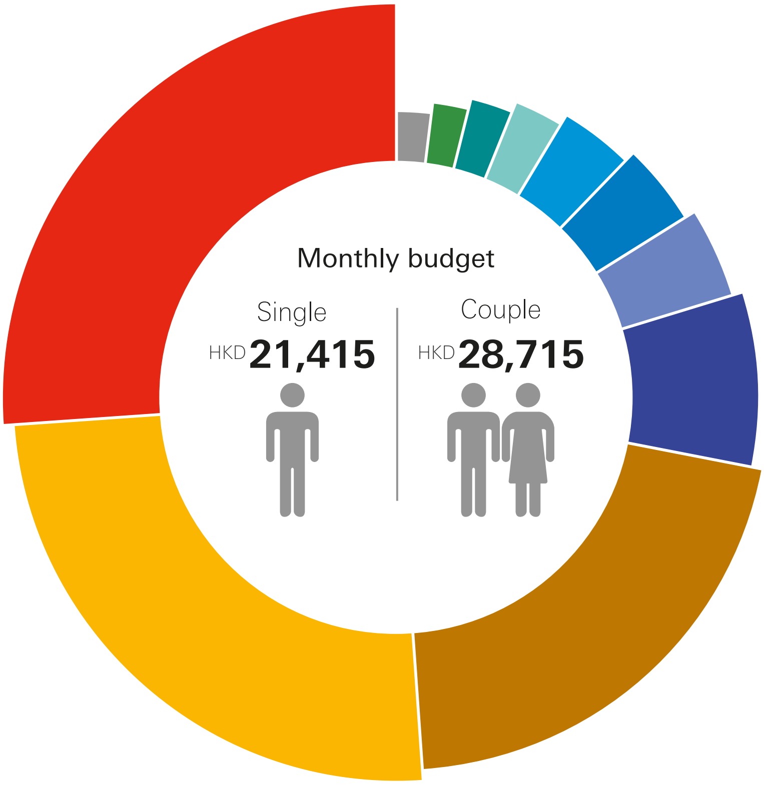
* Extra budgets should be allowed for if living in private rental flat. Referring to the 'Hong Kong Monthly Digest of Statistics (November 2018)' published by the Census and Statistics Department of Hong Kong Special Administrative Region, as at September 2018, the average rents of fresh lettings of private domestic premises is HKD266-504 per square metre per month.

Comfortable lifestyle

Be active and live a comfortable life

Assumption:
Living in a private flat with no mortgage*

Budget for comfortable lifestyle for retired singles or couples



		Single (HKD) Couple (HKD)
26.3%	Housing	5,635 5,635
24.9%	Domestic helper	5,330 5,330
20.8%	Food	4,465 8,605
7.9%	Leisure and entertainment	1,685 2,805
4.0%	Water, electricity and gas	855 1,045
3.9%	Transportation	840 1,045
3.7%	Fitness, beauty and hairdressing	785 1,280
2.4%	Clothing	520 1,025
2.4%	Household goods and services	505 550
1.9%	Health care	405 795
1.8%	Communications	390 600

Above chart and percentage are based on the budget for retired singles.

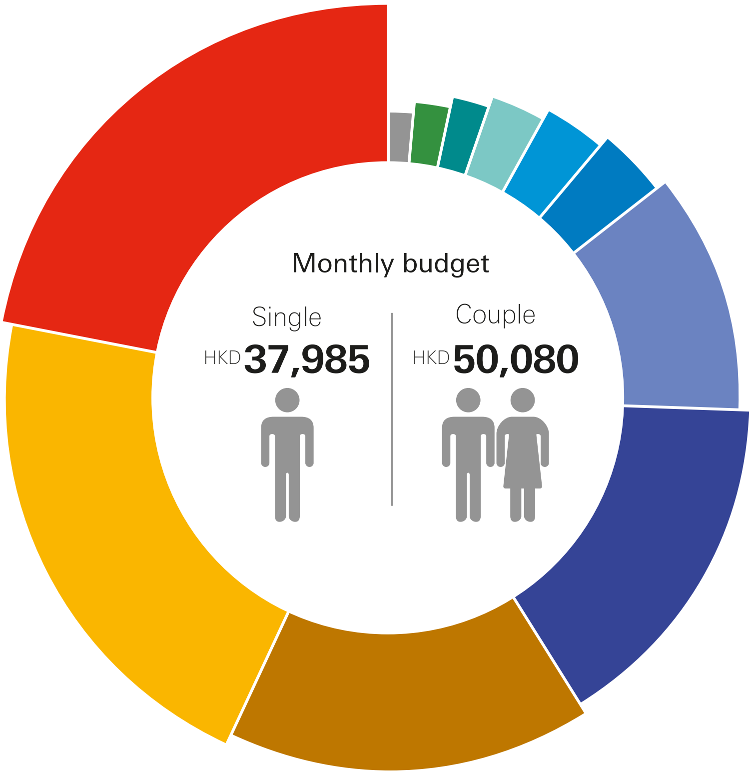
* Extra budgets should be allowed for if living in private rental flat. Referring to the 'Hong Kong Monthly Digest of Statistics (November 2018)' published by the Census and Statistics Department of Hong Kong Special Administrative Region, as at September 2018, the average rents of fresh lettings of private domestic premises is HKD266-504 per square metre per month.

Affluent lifestyle

Travel the world and enjoy an affluent life

Assumption:
Living in a private flat with no mortgage*

Budget for affluent lifestyle for retired singles or couples



%	Item	Single (HKD)	Couple (HKD)
22.1%	Housing	8,390	8,390
21.0%	Food	7,990	14,850
15.9%	Domestic helper	6,055	6,055
15.4%	Transportation	5,855	6,300
11.2%	Leisure and entertainment	4,265	5,975
3.2%	Fitness, beauty and hairdressing	1,210	2,170
3.1%	Water, electricity and gas	1,180	1,310
2.9%	Clothing	1,090	1,910
1.9%	Health care	740	1,485
1.8%	Household goods and services	700	795
1.3%	Communications	510	840

Above chart and percentage are based on the budget for retired singles.

* Extra budgets should be allowed for if living in private rental flat. Referring to the 'Hong Kong Monthly Digest of Statistics (November 2018)' published by the Census and Statistics Department of Hong Kong Special Administrative Region, as at September 2018, the average rents of fresh lettings of private domestic premises is HKD266-504 per square metre per month.

An ideal retirement may mean different things to different people. Hence, plan adequately for your future expenses, and never underestimate the impact of inflation on your retirement reserves.

4

The “happy-retired” share their stories

Free to follow your heart

Raymond Sek-Fai Ng

Renowned radio personality with 33 years of experience at Radio Television Hong Kong (RTHK). Currently host to TV shows, newspaper columnist, and self-driven freelance researcher in traditional Chinese food culture of Hong Kong.

Raymond graduated from the University of Hong Kong in 1973 where he studied English Literature and Translation. His work life started with Radio Television Hong Kong in 1974, and came to a brief stop when he retired as Deputy Director of Broadcasting in 2006. After that, he became lecturer in Communication at the University of Hong Kong and Hong Kong Baptist University, adviser to Dim Sum TV, as well as host/ producer for culture programmes of Now TV, Cable TV and TVB.

Looking back, Raymond is happy to say he enjoyed everything that came his way, from radio to TV, on camera or on panel. Three of his TV shows focusing on parenting, lifestyle and local food culture (including “Raymond’s Taste Buds”), are among the most popular local progarmmes.

Q: How do you interpret “retirement”? Change in mentality or change in lifestyle?

A: I think retirement is a change in lifestyle. You move away from your work roles and live a different life. For example, a friend of mine become a Tai Chi instructor, and some others become dedicated volunteers. In my days with RTHK, I used to look around and try out Hong Kong’s fine dishes with my colleagues. Now I’m able to spend more time studying our traditional food culture, and to learn about the essence of Chinese culture at large. This is very motivating for me. But I know that even within my lifetime, I may not fully understand all about the essence of our traditional food culture. The subject is so immense and there is so much for me to learn.

Q: When did you start thinking about retirement? What arrangements and preparations did you make at that time?

A: I started to think about this when I was going to turn 55. At that time, civil servants hired on pensionable terms has an option to retire at 55. When I decided to retire by that age, I took steps to opt for a smaller lumpsum retirement payment, so that I can receive a higher monthly pension over the long term. This would ensure better income well into my later years.

Q: Apart from your personal arrangement, do you have a financial plan for the family? Is your wife involved in managing the family finances?

A: My wife has been the major financial planner for the family for a long time. But both of us are conservative investors. Like a lot of people, we hold a small quantity of shares but put most of our money into property. We hold several properties, mainly for rental income. But we would also consider selling them at the right time.

Q: How did you manage your finances in your early work life? Have you made any financial plan for your first property?

A: When I became a civil servant in 1974, I was entitled to financial allowance from the “Home Purchase Scheme”. So, I saved up what remains after my spending, and after some years I was able to buy my first home in 1986 with those savings. I’m not very good at wealth management and I still think property is the simplest way to grow your assets.

Q: Were you sort of improvident when you're young? Did you experience any change in your money management habit as you grow older?

A: Young people love to spend and I was no exception. Like most young people, I love to spend on new clothes, music discs, entertainment, wine and dine with friends, etc. But my pace of life slowed down as I grew older, and my desire for material goods came down naturally. You won't be a big spender any more when you are wanting less.

Q: You sent both sons to overseas universities. Did you plan early for their education fund and your overall financial position?

A: I was still working at RTHK when my elder son entered university in the UK. Hence, there was not much financial pressure supporting him. And our financial plan for the second son has been working well since he was born. Incidentally, my elder son completed university in the year of my retirement. That means there is no need to continue putting money into his education fund. We also paid up our mortgage loan with the lumpsum payment from my pension scheme, and were able to put the money originally intended for mortgage repayment into the second son's education fund. That's how we moved money around for different purposes, according to our needs.

Q: There's this common saying "your success depends on your father's success". What's your advice to young people and your sons? Have you tried to tell them about money management, or advised them on money matters?

A: I don't agree that children will succeed only if they have very capable fathers. Yet I think the father's example is extremely important. Let you children find their goals, and they will know what to work for. If I may take myself as an example, from deciding to study English Literature at university, to applying for a job with RTHK, and later to hosting programmes for TV and various media, what lies in my path is the result of working at my goals - one by one.

Q: What is most important to you in order to enjoy retirement to its fullest? What's your advice to people who are still working as they plan for their future? What is the best age for children to start saving?

A: To be able to enjoy retirement, I think it's important to cover your daily needs first, and choose what you wish to do according to your personal situation. I'm not good at giving financial advice, and people have different financial situations and family background. It's not possible to come up with an advice that fits all. For better planning, it's best to be proactive in learning about money management tools and investment techniques, before deciding on plans based on your own situation.

Q: In your own view, which part of your life is better - before or after retirement?

A: My work environment now is different from that of RTHK and my pace of life isn't the same as before. That's why I'm not going to compare life before and after retirement. Personally, I think you simply do the right things at the right time. Of course, these should be what you want and what is meaningful to you. I've a motto to guide me on this: "Appreciate, share and learn in calm repose". That is, appreciate the strengths of other people, share results and joy with others, learn to face up to criticism and to stay in calm repose in your interactions with others, as well as personal reflections. Enjoy retirement life in the light of this attitude, and you'll find greater pleasure and leisure. I'm still working on that!

More on retirement planning

Dr Lam Pun Lee

Previously Assistant Professor at Department of Accountancy, the Hong Kong Polytechnic University. Educational attainment: Bachelor of Social Sciences from the University of Hong Kong and Doctor of Philosophy in Economics from University of Bristol, UK. Author of more than 10 Economics textbooks. Founder of the Living Word Education Centre offering courses in personal wealth management, public policy and economics.

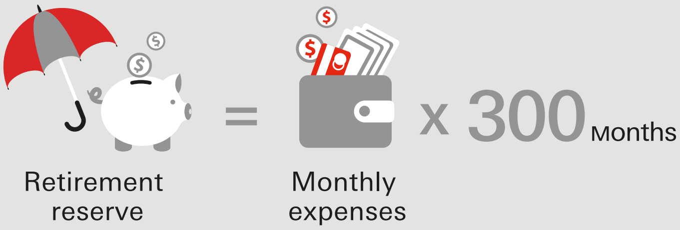
In 2011, Dr Lam retired at the age of 49 as Assistant Professor of the Hong Kong Polytechnic University where he worked for 22 years. During his time at the university, Dr Lam, better known as "Lam Sir", followed his wealth plans with great discipline and success, which enabled him to retire from employment before the age of 50. His portfolio shortly before retirement comprised 70% property and 30% of assets allocated across equities, bonds and cash. He estimates that this portfolio would achieve returns of at least 10% p.a. for his retirement living expenses. His advice to those who wish to plan for retirement: planning is a must, and the earlier the better. Seize opportunities to take the right action, and maximise chances of higher returns.

Q: Can you share some wealth planning tips that enable you to retire at 50?

A: About one year before I was to retire, I started to build a portfolio invested across property, equities, bonds and cash. About 70% of the portfolio is invested in property (half for self-occupation, and half for rental income), and the other 30% is allocated to assets of high, medium and low risks (i.e. equities, bonds, insurance plans, and cash Renminbi and Hong Kong dollars).

Q: Which aspects of your plan would require more attention?

A: I would watch more closely on my daily expenses. Nobody knows for sure how long we are going to live, but with advancements in medicine, Hong Kong residents are living longer. In general, retirees may live between 20-30 years after retiring at age 65. That's why we need adequate savings for our retirement. We can follow a simple formula to calculate how much reserve is needed - by multiplying our expected monthly expenses (housing included) with 300 months (i.e. 25 years).



Prospective retirees may use the above "300 rule" to calculate their retirement reserve. For example, if you expect to spend HKD 20,000 (rentals included) each month, simply multiply the amount with 300. The reserve will be HKD 20,000*300 months, or HKD 6,000,000 in total. At an expected investment return of 4% p.a. [on the reserve], the investment income at your disposal will be HKD 240,000 annually, or HKD 20,000 per month.

However, in order to have HKD 6,000,000 in assets plus an expected investment return of 4% p.a., you need to set aside an amount of money first, and your choice of investment products should not be overly aggressive. A lower risk portfolio such as high-yield utility shares, REITs and savings insurance will serve this purpose.

Q: What kind of lifestyle would you pursue after retirement?

A: I'm looking forward to a worry-free lifestyle, and one that is active outside employment. Health permitting, I will work on things that enable me to give back to society, riding on my experience and knowledge in wealth planning. I'll be a part-time instructor in courses that teach people how to manage their own wealth, seize the right moment for investments, and build assets in preparation of their retirement. We offer scholarships for course participants and rental waivers for young people aspiring for business start-ups or starting tuition courses. We also run free seminars for young people in the hope of widening their scope of development and passing on knowledge about wealth management.

Q: As Hong Kong people are living longer, which financial planning products can transfer risks effectively, and give greater security over living expenses for oneself and family?

A: I started to buy insurance plans at a young age, to ensure all in my family have adequate protection. The four of us now have dozens of insurance plans, including life, medical, critical illness, children's education fund and annuity. Planning in advance helps to eliminate worries. Some of the plans we purchased back in the 1980s have accumulated considerable cash value by now. The accrued dividends under these plans are good enough to cover premiums for their remaining terms. In time, our premium payments have come down from HKD 300,000 to between HKD 60,000-70,000.

Q: Besides contributing to MPF or provident funds, are there other ways such as (additional voluntary contribution, immediate or deferred annuity) for employees to meet future living expenses?

A: I have to say you can't rely on MPF or provident funds alone to see you through retirement. We also need additional savings and suitable financial planning to help out. Employees can make additional voluntary contributions to their MPF funds, and at the same time, make additional savings. There are immediate and deferred annuity plans in the market that offer both life and savings features, providing an option to receive regular monthly income in your retirement. Either government or private annuities would be able to enhance the stability of returns quite effectively, and therefore useful in growing wealth and offering options in financial planning.

For example, when I reached 55 last year, I took out an annuity plan at a premium of HKD 780,000 for 10 years. I am expecting this amount to grow to HKD 1,000,000 at the end of 10 years, when I would be able to join the government's whole-life annuity plan. I think young people should learn to see things from a longer perspective. If you can find the means, act early to purchase annuity and insurance plans for stable retirement income.

Q: Young people are saying they can't find anything to save. What's your advice or suggestions for them to be able to start planning their own finances?

A: Most young workers earn about HKD 10,000 a month. They will certainly benefit if they start saving as early as possible. Start by setting some goals, and cutting down non-essential expenses. With the help of some discipline in spending, it will not be difficult to save HKD 4,000 or HKD 5,000 a month. After eight or nine years, you'll have your first sum of money for wealth planning. Look for financial plans that suit you, for example, insurance plan, annuity, investment funds, bonds or equities. Harness these tools for continuous wealth growth, and you will be able to achieve your goals in different life stages. At the same time, these plans may provide protection for the future. For example, let me share my experience. The life insurance plan I purchased a long time ago comes with a saving element and has been producing steady returns. It also allows for re-investment of dividends and for all accrued value to roll over with interest - a good way to maintain continuous growth in the savings.

Q: What's your advice to people who have not saved much when they were young, but are now reaching their 40s or 50s?

A: As long as you are not yet 65, there is still an opportunity to claim back some lost ground. Indeed, people are living longer and longer. Therefore, middle-aged people must jump into action now. Keep saving every month and choose lower risk assets, including higher yield utility shares or REITs. At 55 this year, I have just taken out a deferred annuity plan. But I will only put money into the plan and roll over everything, including savings and dividends, to make sure a steady income stream will be there for my retirement.

5
Case studies in financial planning

Reference case 1

Name	Mr and Mrs Chan
Age	62 and 58 respectively
Occupation	Guest Lecturer at university (monthly income HKD 80,000), Customer Service Supervisor (Monthly income HKD 40,000)
Objective	Planning to retire at age 65 and have their own long-term retirement income to maintain an "Affluent" lifestyle (Based on benchmark figures from the HSBC Retirement Monitor, 3Q 2018, a couple leading an Affluent life will require a monthly budgetof HKD 49,935)

Existing Assets

Self-occupied property (present value)	HKD **9,000,000**
Savings deposits	HKD **400,000**
Equities and unit trusts	HKD **2,100,000**
Savings insurance plan	HKD **2,800,000**
Mandatory Provident Fund (for couple)	HKD **3,600,000**
Private car	HKD **800,000**

Total HKD **18,700,000**

Monthly income and expenses

Income (for couple) HKD **120,000**

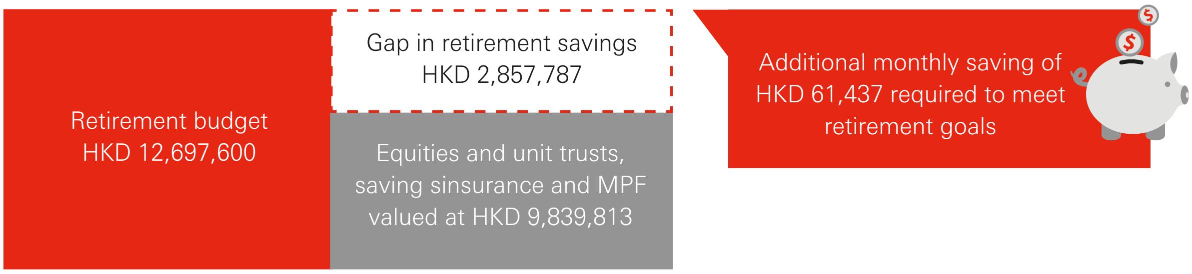
Personal and household expenses	HKD **45,000**
MPF contribution (including additional voluntary contribution)	HKD **9,000**
Monthly Surplus	HKD **66,000**

Calculating how much is required for retirement

To maximise chances of achieving their retirement goals, the Chans need to manage their income and expenses effectively before retirement. They also need to ensure they have adequate medical and life insurance coverage in place. Hence, Mr Chan should see if they already have adequate and appropriate protection from existing individual and group insurance plans.

Mr and Mrs Chan wish to retire at the same time at age 65, and enjoy an affluent lifestyle travelling around the world. Their estimated expenses will be HKD 49,935 per month, or HKD 599,220[2] per year.

Assuming they both retire at age 65 and live to age 85, they would need to have save HKD 12,697,600[2,3] for retirement. That means they need to save HKD 72,597[4] each month from now on. To achieve this goal, they should maintain their existing accumulated assets, covering MPF savings, savings insurance plan, equities and unit trusts as long-term investments. They would also need to save an additional amount of HKD 60,597 each month, apart from the irusual MPF contributions[5]. With their existing assets and a monthly surplus of HKD 66,000, Mr and Mrs Chan have good chances to achieve an affluent lifestyle after retirement.

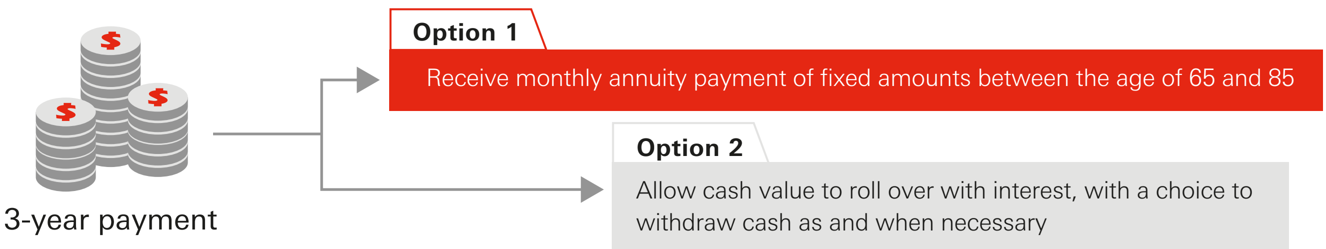


After calculating his retirement budget, how does Mr Chan start to achieve his goals?

Having gone through his risk profile and financial need analysis, Mr Chan decided to take annuity as his long-term retirement income source. He put the monthly surplus into an annuity plan with a three-year premium payment term. At the end of the term, he will have the option of either (1) receiving a monthly annuity payment of fixed amounts between the ages of 65 and 85; or (2) allow all cash value amounts under the plan to roll over with interest, with a choice to withdraw cash as and when he wishes.

Apart from the payment, Mr Chan may also have the opportunity to receive extra protection, such as accidental death, terminal illness or unemployment benefits.

Once they set out on this path, Mr and Mrs Chan should review their progress on a regular basis and whenever they pass new milestones in life, subject to specific features of the affluent retirement.



All figures are rounded off as whole numbers.

1 According to the HSBC Retirement Monitor 3Q 2018 budget for Affluent lifestyle, the monthly expense for a couple is HKD 49,935, or HKD 599,220 per year

2 The annual budget for the couple's expenses (HKD 599,220) will be equivalent to HKD 664,365 (assuming inflation at 3.5% p.a.) three years later. This assumes the couple's retirement life expectancy is 20-years, with a return of 4% p.a. after retirement, and inflation at 3.5%p.a. Retirees would also be exposed to impacts from inflation although they no longer have income from employment. Hence, targets for projected returns should be more conservative, with an aim to stay above inflation

3 The amount would be equivalent to HKD 9,839,813 three years later, assuming a 5% p.a. return on equities and unit trusts, savings insurance and MPF benefits. The remaining gap in retirement reserves will be HKD 2,857,787 = HKD 12,697,600 - HKD 9,839,813. Whereas, the additional monthly saving of HKD 73,437 required is derived from calculations assuming return on assets at 5% p.a. before retirement over three years, i.e. 3*12 months (36 months)

4 Assuming the couple makes a 5% MPF contribution from their total monthly income (including contributions from employer and voluntary contributions from employee) (HKD 120,000*5%*2) = HKD 12,000 (calculated on the basis of: return on assets at 5% p.a. before retirement, and 4% p.a. after retirement; with inflation at 3.5% p.a.)

5 Savings required: HKD 73,437 - HKD 12,000 = HKD 61,437

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Reference case 2

Name	Mr and Mrs Kwan
Age	40 and 35 respectively
Occupation	Supervisor at logistics company (monthly income: HKD 45,000); Accounting Officer (monthly income: HKD 30,000)
Background	Raising a 10-year-old daughter Current home purchased two years ago, with outstanding mortgage payments over the next 13 years
Objective	The couple hope to prepare for retirement by the age of 60, and maintain a "comfortable" lifestyle (Benchmark data in the HSBC Retirement Monitor 3Q 2018 suggest this requires a monthly budget of HKD 28,615)

Existing Assets

Self-occupied property	HKD 5,800,000
Savings deposits	HKD 580,000
Equities	HKD 350,000
MPF accrued benefits (for couple)	HKD 600,000
Outstanding mortgages	HKD 2,700,000

Total HKD 4,630,000

Monthly income and expenses

Income (for couple) HKD 75,000

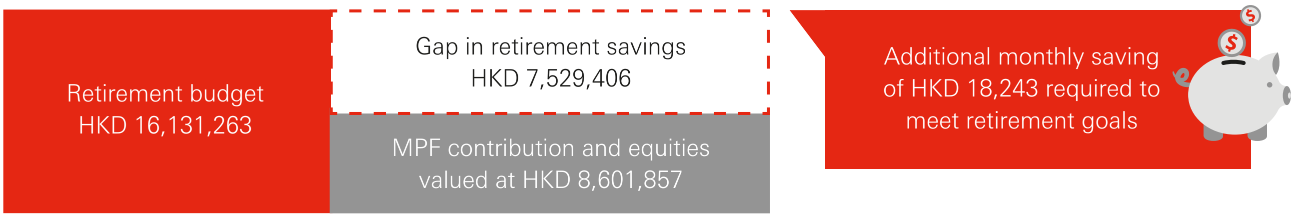
Mortgage payment	HKD 19,941
Household expenses and MPF contribution (including additional voluntary contribution)	HKD 35,000
Monthly surplus	HKD 20,059

Calculating how much is required for retirement

Mr Kwan believes the family will be spending less in retirement. From the HSBC Retirement Monitor 3Q 2018 he knows HKD 28,615 per month, or HKD 343,380 per year would be good enough for a couple to live a comfortable life. Assuming he retires at 60 and lives till 85, the couple would need a total saving of HKD 16,131,263.[1]

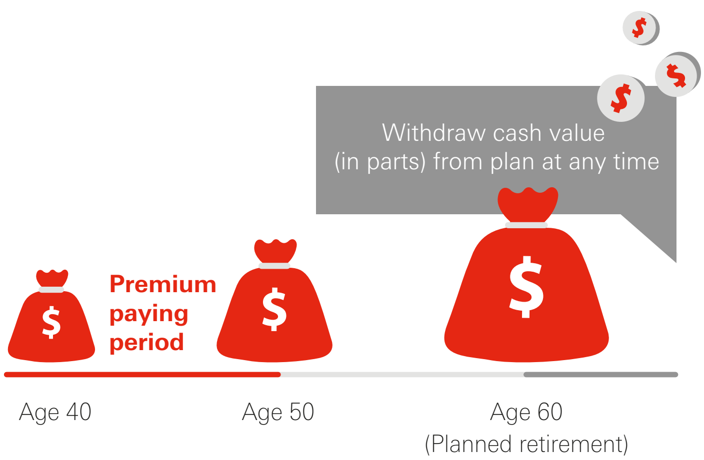
Mr Kwan will be able to pay up his mortgage loan in 13 years at a monthly payment of HKD 19,941[3] and mortgage rate of 2.25% p.a. By the time he is 53, he will have extra resources to save for retirement. The couple opted for a savings insurance plan to build savings and grow wealth, because both of them are found to have low risk profiles.

- At the age of 60, Mr Kwan would have accumulated some HKD 6,556,124[3] on the basis of his MPF contributions and equities held as long-term investment.
- Having paid off his mortgage loan, Mr Kwan can allocate the monthly surplus of HKD 19,941 to other plans for savings or wealth management, with a view of rolling over HKD 2,045,733[4] when he turns 60.
- Excluding their existing assets, Mr Kwan can fill the gap of HKD 7,529,404[5] in retirement funds by setting aside HKD 18,243 each month[6] for additional savings, thus achieving a comfortable lifestyle in retirement.



Are there options other than investments to save for retirement?

Based on the findings of his own risk profile and financial needs analysis, Mr Kwan also decided to make use of a whole life insurance plan for retirement savings. He goes for a plan with premium payment over 10 years, whereby he can benefit from the long-term wealth accumulation effect and higher potential returns by the time he retires. He also has the option at that time to withdraw part of the cash value under the plan for daily expenses in his retirement years. Subject to specific features of the plan, Mr Kwan may also enjoy extra protection such as accidental death coverage, terminal illness and unemployment benefits.



Continuous and regular reviews of portfolio performance is vital in achieving your wealth goals, as are evaluations to see if the investment and insurance plans in force are still appropriate from time to time.

All figures are rounded off as whole numbers.

1 The amount required is calculated at HKD 683,254 per year over 25 years (Expected retirement from age 60-85), with assumed return at 4% p.a. after retirement, and inflation at 3.5% p.a. The amount of HKD 683,254 is derived from the following: based on a monthly expense of HKD 28,615 for the couple, the annual requirement per year will be HKD 343,380 (HKD 28,615*12), which is equivalent to HKD 683,254 after 20 years (assuming inflation at 3.5% p.a.)

2 Outstanding mortgage of HKD 2,700,000, at 2.25% p.a. (rates from HSBC website) remaining tenure of 13 year

3 Calculated on basis of the value of shares and the couple's 5% MPF contribution (including employer's contributions and employee's voluntary contributions), assuming a return of 6% p.a. before retirement (refer to MPF Schemes Statistical Digest, June 2018), over a period of 20 years

4 Funds released from mortgage payment, assumes a 5% p.a. return over 7 years (between age 53 and 60)

5 The gap is calculated by deducting from the required amount of HKD 16,131,263 the existing accumulated assets of HKD 6,556,124, as well as the total amount of HKD 2,045,733 accrued from the surplus released after paying off the mortgage

6 The amount of extra monthly savings required is calculated on the basis of how much is needed to fill the HKD 7,529,404 gap in 20 years, i.e. 20*12 month (240 months), assuming a return of 5% p.a. before retirement

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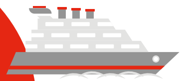
6
Celebrate your retirement

Retirement to many is like a mid-way station or new chapter in life. But some may still worry if this means life would become endless and dull without the stimulus from work. Retirees are expected to live increasingly longer lives. They are still very energetic and physically fit at the time of retirement, and most importantly, free to pursue personal interests and dreams for which they could not find time before. Market forces are keenly at work to meet increasing demand from the silver market, turning out new products and services targeting retirees – from apparel, healthcare or personal grooming to tourism and insurance. Life can be even more exciting and enjoyable in retirement.

Going to university

Leaving employment means retirees can devote more time in the pursuit of knowledge, and one great way to do so is to enroll in a programme for an undergrad or master's degree. Six local institutes of higher learning offer practical courses and interest groups especially suited for retirees, including Tai Chi, calligraphy, painting, language learning, computer usage, and legal knowledge. Courses at the Open University are offered at HKD 400 for 10 sessions of two-and-a-half hours each[1].



Travelling around the world

Retirement is the perfect time to fulfil your dreams of travelling around the world. A world cruise taking you from country to country on leisurely voyages may span between several to six months. Cruise fees, from HKD 100,000 upwards[2], usually cover boarding and fine dining. Some package fees also cover sight-seeing trips at ports of call.

A wide range of interest groups catering to older people is also available in the community

(The following information is for reference only. Enquiries should be directed to organisations running the courses.)

Lawn bowls training[2]	HKD 140/8 sessions
Healthcare with Chinese herbal medicines[3]	HKD 1,950/10 sessions
Golf for adults[4]	HKD 1,200/4 sessions
Baduanjin Qigong[5]	HKD 450/month (4 weekly sessions)
Cantonese opera singing[6]	HKD 740/12 sessions

1 Life-long Learning programme, Elders Academy, The Open University of Hong Kong
2 Hong Kong Lawn Bowls Association
3 HKU School of Professional and Continuing Education
4 South China Athletic Association
5 HKU Chinese Martial Arts Alumni Association
6 Spare Time Study Centre of The Hong Kong Federation of Trade Unions
7 Prices as quoted in in Oceania Cruises 2018, Jet Tour

Trail walking is another popular pastime for Hong Kong's retirees. With simple mountain gear and a back-pack, retirees can conquer the territory's peaks and enjoy the countryside in the company of good friends. Some also take the opportunity to practice photography on their excursions, using smart phones, digital cameras, sports cameras, aerial cameras or underwater hover cameras. For a few thousand dollars or up to ten thousand dollars in these equipment, endless fun can be found in capturing beautiful scenery and memorable moments with friends and family.

Developing hobbies

Example: small-to-medium sized restaurant[8]	
Renovations/fittings	HKD 2,000,000
Rentals and other long-term deposits	HKD 135,000
Property agent commission	HKD 60,000
Consultant fees	HKD 30,000
Business registration and company incorporation	HKD 7,500
Inventory (30 days)	HKD 218,722
Current expenses (salaries, rentals, public utilities and sundry items for one month)	HKD 315,000
Total capital required	HKD 2,766,222

Starting a business

You may wish to turn your hobby or interest into a business, riding on the experience and network from your work life. As long as your finances stay healthy, and without sacrificing your retirement life, why not?

Celebrate a new chapter in your life! Enjoy and enhance your life quality in all that you do - studying, travelling, hobbies, starting a business, or moving overseas.

8 Example quoted in the "Business Analysis Worksheet for Starting up Business" Template, Support and Consultation Centre for SMEs , Industry and Trade Department website

Threshold for investment immigrants

United States: USD 500,000[4]
Australia: AUD 5,000,000[5]
Canada (Quebec): CAD 1,200,000[6]
United Kingdom: GBP 2,000,000[7]
Taiwan: NTD 15,000,000[8]

Moving overseas

Looking forward to a different lifestyle outside Hong Kong for retirement? Consider moving overseas to popular destinations such as the United States, Canada and Australia. Immigration thresholds vary from country to country, so prospective retirees may take some time to identify locations that meet with their preferences and ability to integrate. Some may also take the opportunity to start a business overseas.

More and more Hong Kong people are relocating to mainland China for retirement in recent years, where they may buy a home or find a place in elderly homes. However, restrictions for non-mainlanders to buy homes and property price hikes are making this increasingly difficult. Property prices on the Mainland now range between RMB 1 million to RMB 10 million. For retirees, however, the biggest concern is the difference between medical services available in Hong Kong and the Mainland, where most hospitals require payments before providing services. In the event of illnesses and accidents, cash payments and deposits are generally required upfront, in order to avoid delays in consultation or treatment.

As a general reminder, one must understand that life will be different when relocating overseas. A delightful place to visit as a tourist is not necessarily the ideal place to build your retirement home. It is more important to ascertain your ability to integrate into the mainstream culture in the country of your choice. Immigration policies and cultural differences may also bring challenges to the immigrant family. Some people try to mitigate the difference with the second home idea, where they stay for extended periods in a purchased or rented home in another country, and shuttle back to Hong Kong from time to time.

Given the high housing and consumer prices in Hong Kong, what retirees spend here in the SAR may be good enough for comfortable lives and spacious homes in another city. For those who go for this, attention should be drawn to restrictions on their period of short-term stay. For example, the maximum period of stay in Taiwan is 3 months[9] (renewable for another 3 months),and 6 months for Canada[6]. Again, adequate savings are required to help capture opportunities to live between two cities.

Technology for smart ageing

Innovative technologies are making life easier and better for older people. New ideas and products are coming to market to help enhance their quality of life, manage healthcare or improve mobility and entertainment for people with health or ageing problems. To name a few examples, there are "smart mirrors" that can detect the emotional state of the user, and feed timely updates to care-givers, friends or relatives via cloud-based applications; "bio-functional socks" that keep the appropriate moisture on the users' feet; intelligent robots that can recite poetry in Cantonese and interact with users in playing Tai Chi and exercise; the seated fully automatic bathing device that enable users to bathe safely without help; and wheelchairs that can turn within a very small space. In time, more innovative new products are on the way to help older people live with good health and more dignity.[10]

9 U.S. Citizenship and Immigration Services: Permanent Worker Visa Preference Categories
10 Australian Government Department of Home Affairs
11 New Quebec Immigrant Investor Program (QIIP), Canada 12 Gov
12 Gov.uk - Tier 1 (Investor) visa
13 Executive Yuan, Taiwan: New economic immigration policy
14 National Immigration Agency of the Ministry of the Interior, Taiwan: Entry/Exit Documents Required for application of short-term stay for Hong Kong and Macau Residents
15 The Gerontech and Innovation Expo cum Summit (GIES) 2017

Important Risk Warning

1. Some of the investment products are structured products which may involve derivatives. The investment decision is yours but you should not invest unless the intermediary who sells it to you has explained to you that the product is suitable for you having regard to your financial situation, investment experience and investment objectives.
2. Unit Trusts, Bonds, Certificates of Deposit (CDs) and structured products (including Equity Linked Investment, Structured Notes, Deposit Plus, Structured Investment Deposits and Capital Protected Investment Deposits ("CPI")) and investment-linked products are NOT equivalent to time deposits. Unit Trusts are investment products and some may involve derivatives.
3. The price of securities may move up or down and may become valueless. Losses may be incurred as well as profits made as a result of buying and selling securities.
4. In the worst case scenario, the value of the funds may be worth substantially less than the original amount you have invested (and in an extreme case could be worth nothing).
5. Issuer's Risk. Bonds, CDs, Structured products are subject to both the actual and perceived measures of credit worthiness of the issuer. There is no assurance of protection against a default by the issuer in respect of the repayment obligations. In the worst case scenario (e.g. insolvency of the issuer), you might not be able to recover the principal and interest/ coupon, if applicable, and the potential maximum loss could be 100% of invested amount and no interest/ coupon received.
6. Investors should not make investment decisions based on this material alone.
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