



Mandatory Provident Fund Schemes Authority

Approaches to Measurement of Retirement Costs

Hong Kong

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Table of Content

I.	Background	1
II.	Review of Approaches to Measurement of Retirement Costs	1
	<i>Replacement Rate Approach</i>	1
	<i>Budgeting Approach</i>	7
	<i>Comparison of Budgeting and RR Approaches for Retirement Planning</i>	11
III.	Industry Practices Regarding Measurement of Retirement Needs	11
IV.	Conclusion	12
Annex A		
	Methodology Used for Computing Theoretical Gross and Net Pension RRs in EU Member States	13
Annex B		
	Methodology Used for Determining Target RRs by AON Consulting/Georgia State University.....	14
Annex C		
	Research Stages of Minimum Income Standards in Britain	15
Annex D		
	Norwich Union Retirement Index.....	16
Annex E		
	Methodology of Westpac/ASFA Retirement Living Standard.....	17
Annex F		
	Westpac/ASFA Retirement Living Standard – Modest and Comfortable Lifestyle	19
Annex G		
	Hong Kong Average Monthly Household Expenditure of Selected Household Composition by Expenditure Group	22

I. Background

1. For a person to properly plan for retirement, one of the pre-requisites is to know how much money will be needed in retirement. With the information on retirement costs, a person can compare this with projected retirement savings. A person may need to make additional savings or potentially adopt a different approach to risk, if it appears that savings fall short of estimated retirement needs.
2. With the objective of sharing the possible ways to measure retirement costs with interested parties, the Mandatory Provident Fund Schemes Authority (“MPFA”) has conducted a research project to review the major approaches to the measurement of retirement needs as well as the existing retirement planning tools used in Hong Kong and overseas.

II. Review of Approaches to Measurement of Retirement Costs

3. Retirement costs can be measured in many ways. Two major approaches, replacement rate and budgeting, are most commonly used. The former is a top-down approach, which provides the pension entitlement at the time of retirement as a proportion of pre-retirement income, while the latter adopts a bottom-up approach based on an analysis of itemized costs (i.e. budget standards) a person would likely spend in retirement years.

Replacement Rate Approach

4. Replacement Rate (“RR”) approach seeks to give an indication of the extent to which a person can maintain the pre-retirement income after retirement. In general, it is calculated by dividing a person’s income after retirement by the income prior to retirement, and the resulting rate indicates the level of pre-retirement income “replaced” by retirement income.

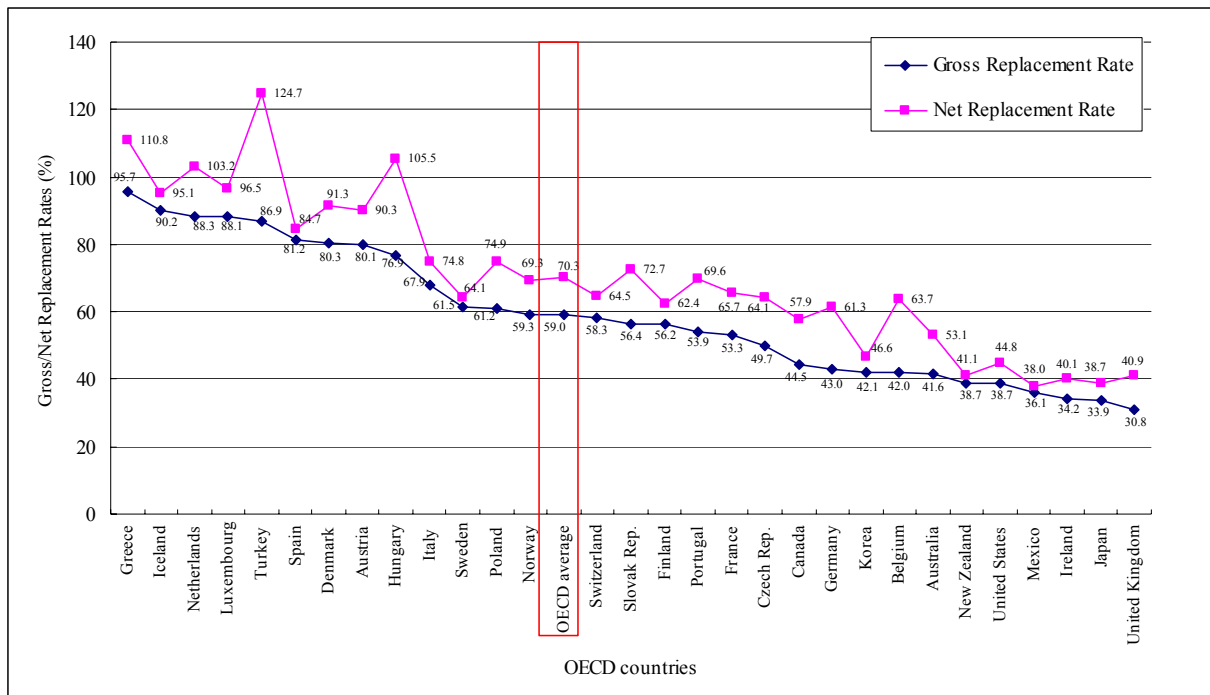
Use of RR in Different Jurisdictions

5. In addition to serving as a tool for retirement planning by individuals, RRs are extensively used to measure pension adequacy at the national level. In the international arena, RRs are used to compare the level of retirement protection between different countries.

Organisation for Economic Co-operation and Development (“OECD”)

6. With the aim of conducting cross-country analysis of the adequacy of the national pension systems, OECD has calculated the RRs of the prospective pensions of its member states.¹ Pension entitlements include all mandatory pension schemes for private-sector workers, both public and private schemes.

Figure 1: Pension RRs in OECD



Source: OECD (2009), *Pensions at a Glance 2009: Retirement-Income Systems in OECD Countries* (www.oecd.org/els/social/pensions/PAG).

7. The study takes into account all means-tested benefits which retirees are eligible to receive. With a set of baseline economic assumptions, the prospective gross and net pension RRs² of 30 OECD countries at the average earning level were compiled and the results are shown in Figure 1. The average gross and net RRs of OECD countries are 59% and 70.3% respectively.

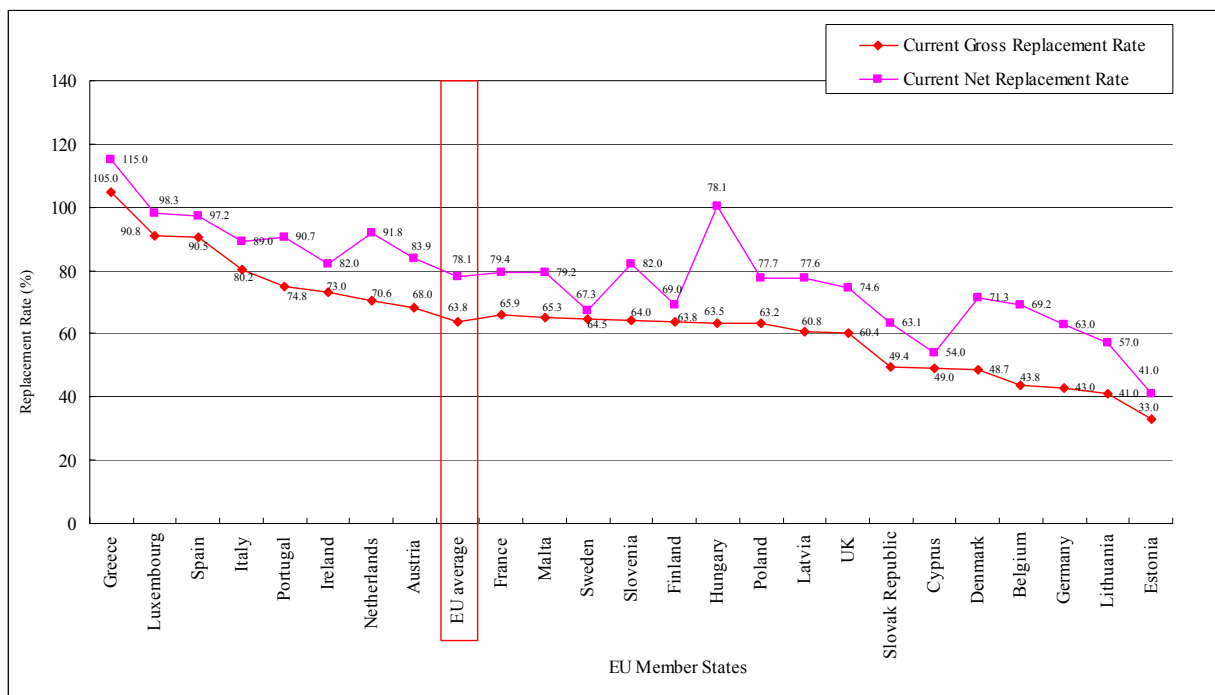
¹ Edward Whitehouse, “New Indicators of 30 OECD Countries’ Pension Systems,” *Journal of Pension Economics & Finance*, Vol 5 (2006): 275-298.

² Gross RR is the retirement income divided by the gross income in the year prior to retirement. Net RR is the after-tax retirement income divided by after-tax income in the year prior to retirement.

European Union (“EU”)

8. In a study conducted by the EU³, the RRs of pension benefits of its member states were compiled by the methodology given in Annex A. Based on a set of assumptions, the pension RR of each member country was calculated by dividing the pension income during the first year of retirement by the income received during the year preceding retirement. Pension income includes income derived from statutory schemes, occupational or private schemes and individual retirement provision. The results of gross and net RRs of each country for the year 2006 are given in Figure 2. The average gross and net RRs of EU member countries are 63.8% and 78.1% respectively.

Figure 2: Gross and Net Pension RRs of EU Member States



Source: Data from Indicators Sub-Group (ISG), Social Protection Committee, The European Union, “Current and Prospective Theoretical Pension Replacement Rates,” (The European Union, 2006): 25-130, http://ec.europa.eu/employment_social/social_protection/docs/isg_repl_rates_en.pdf; and “Updates of Current and Prospective Theoretical Pension Replacement Rates,” (The European Union, 2009): 13, <http://ec.europa.eu/social/main.jsp?langId=it&catId=89&newsId=551&furtherNews=yes>.

Target RR and its Determination

9. The above discussion on cross-jurisdictional RR is helpful in understanding the adequacy of retirement savings systems as between jurisdictions. It does not however provide any assistance to individuals seeking to understand the adequacy of their own

³ Indicators Sub-Group (ISG), Social Protection Committee, The European Union, “Current and Prospective Theoretical Pension Replacement Rates,” (The European Union, 2006): 136, http://ec.europa.eu/employment_social/social_protection/docs/isg_repl_rates_en.pdf.

retirement savings. To facilitate retirement planning for individuals, it is necessary to find out how much an individual will need in retirement. In particular, one would need information about what RR would be needed to maintain the same standard of living as that enjoyed during the person's working years. In this regard, "target RR" seeks to achieve this goal.

10. Target RR is defined as the RR that a person needs in retirement in order to maintain the same standard of living as that enjoyed during the person's working years. By comparing retirement benefits and other retirement income with the target RR, it gives individuals an idea whether additional contribution or saving is needed for the achievement of the expected living standards in retirement. Therefore, target RR is a useful indicator for retirement planning.
11. A target RR is typically less than 100%. The reduced income needs in retirement is mainly due to a decrease in saving needs, repayment burdens, work-related expenses as well as tax changes. For certain retirees, however, the target RR may exceed 100% as the reduced income needs in retirement may be offset or even outweighed by the increased spending on medical and health care.
12. Target RRs vary greatly and depend very much on personal circumstances, one's expectation of living standard in retirement and economic conditions (e.g. wage growth and inflation).

Methodologies

13. Different methods are used in determining target RRs. The methods used by Aon Consulting/Georgia State University⁴ are popular tools for benchmarking retirement income needs in the US. Three models taking into account different factors were developed in the form of RRs. While the Expenditure, Tax and Savings Model takes into account the changes in age- and work-related expenditure as well as taxes and savings⁵ before and after retirement, the Tax and Savings Model encompasses tax and savings factors but ignores the age- and work-related expenditure changes. The Tax

⁴ Aon Consulting, "Replacement Ratio Study," (Chicago: Aon Consulting, 2008), <http://www.aon.com/about-aon/intellectual-capital/attachments/human-capital-consulting/RRStudy070308.pdf>. The Replacement Ratio Study was initiated in 1998 with regular updates. The most recent one was issued in 2008, which was the seventh update to the study.

⁵ In Aon's report, savings are defined as the sum of net acquisition of stocks and bonds, net investment in farm or business, net change in savings and checking accounts, net change in money owed, net change in US savings bond holdings, and contributions to retirement plans.

Only Model considers only the tax impact and ignores the savings as well as age- and work-related expenditure changes.

14. Of these three models, the Expenditure, Tax and Savings Model is the most meticulous method for determination of target RR. Detailed methodologies of these three models are shown in Annex B.

Target RRs in Different Jurisdictions

International Organisations

15. There is no consensus as to the “right” target RR. The World Bank suggests that a gross RR of 54% or a net RR of 70% are probably reasonable targets for many households. These targets would allow a comfortable standard of living for a high-income household but would be near subsistence for a low-wage household.⁶ However, the World Bank considers that establishing benchmarks is problematic due to variations in attitudes across countries as a result of social and cultural perceptions.⁷
16. The International Labour Organisation recommends that, as the basic social security, the periodic payments to standard beneficiaries in old age for a couple should be equivalent to a RR of 45%.⁸

Australia

17. The Australian Senate’s Select Committee on Superannuation found that the desirable net RR for a person on average earnings should be in the range of 60%-65%. The Committee also noted that this target range would need to be higher for those with less than average earnings (about 90% for those on median earnings) but could be smaller for those with high incomes.⁹

⁶ The World Bank, *Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth* (New York: Oxford University Press, 1994): 294.

⁷ Robert Holzmann and Ufuk Guven, *Adequacy of Retirement Income after Pension Reforms in Central, Eastern and Southern Europe: Eight Country Studies* (Washington DC: The World Bank, 2009): 38.

⁸ International Labour Organisation, *ILO Convention 128, Invalidity, Old-Age and Survivors’ Benefits Convention*, 1967, <http://www.ilo.org/ilolex/cgi-lex/convde.pl?C128>.

⁹ Select Committee on Superannuation, The Senate, “Superannuation and Standards of Living in Retirement - Report on the Adequacy of the Tax Arrangements for Superannuation and Related Policy,” (Canberra: The Senate, December 2002): 27-28, http://www.apf.gov.au/Senate/committee/superannuation_ctte/completed_inquiries/2002-04/living_standards/report/report.pdf.

US

18. According to the study by Aon Consulting/Georgia State University, the target gross RR of a US wage-earner family retiring at 65 with a spouse aged 62 would be in the range of 78-94%.¹⁰
19. As shown in Table 1, the target gross RRs are inversely related to pre-retirement incomes. The higher the pre-retirement income, the lower the target RR.

Table 1: Target RRs of Earners with Different Income Levels in the US

Pre-retirement income (US\$)	Target RR (%)
20,000	94
30,000	90
40,000	85
50,000	81
60,000	78
70,000	77
80,000	77
90,000	78

Source: Aon Consulting, "Replacement Ratio Study," 2008 report (Chicago: Aon Consulting 2008): 6.

Hong Kong

20. Until recently, there are hardly any studies which have identified target RRs for Hong Kong's prospective retirees. In a paper written by Prof. Chan Wai Sum of the Chinese University of Hong Kong, it is stated that most individuals believe high earners would need approximately 60-70% of pre-retirement income, and middle to low earners 70-80%, in order to live comfortably in retirement.¹¹
21. An on-line survey by Fidelity Investments Management (Hong Kong) Limited found a median RR of 43% among 850 respondents. In its survey report, Fidelity also suggests that a target RR of 67% is needed for a comfortable retirement.¹²

¹⁰ Aon Consulting, "Replacement Ratio Study," (Chicago: Aon Consulting, 2008): 6, <http://www.aon.com/about-aon/intellectual-capital/attachments/human-capital-consulting/RRStudy070308.pdf>.

¹¹ Chan Wai Sum, "The First Mandated Social Security Pension Scheme in Hong Kong," *Benefits: A Journal of Social Security Research, Policy and Practice*, Issue 32 (September/October 2001): 18.

¹² Fidelity Retirement Institute, "Facing Hong Kong's Retirement Challenge," (2008): 3.

Budgeting Approach

22. The budgeting approach measures the expenses that a person is expected to spend in retirement. The use of budgeting approach requires development of budget standards. The approach begins by specifying the needs that have to be met in order to maintain a given standard of living, then identifies the goods and services required to meet these needs, and finally costs them and adds them up to produce a total budget. Generally speaking, most of the budget standards require a mixture of normative judgments (regarding needs) and empirical data (indicating preferences).
23. It is noteworthy that the budgeting approach is extensively used in the formulation of social security policies by setting minimum standard of living for certain households, such as those at the subsistence level. Countries in which budget standards have been developed include Australia, former Soviet Union, Germany, Hungary, Malaysia, the Netherlands, Norway, Poland, Sweden and the UK.¹³ In Australia and the UK, budget standards are adopted by the financial planning businesses as a means to estimate one's retirement expenses for a given lifestyle.

UK

24. A leading study on budget standards was conducted by the Family Budget Unit ("FBU") in the UK in 1993.¹⁴ The FBU study presented budget standards for six different household types at a modest but adequate standard of living and at a low cost standard. The modest but adequate standard was described as a level of living which is sufficient to satisfy prevailing standards of what is necessary for health, efficiency, the nurture of children and participation in community activities. Low cost standard is the level below which good health and reasonable participation in social activities are at risk.
25. The FBU study involved experts determining what items should be included in the budget to achieve a given living standard with the aid of recognized standards (e.g. nutritional and heating standards), subject experts (e.g. dieticians), consumer surveys, manufacturer's evidence (e.g. about product life-spans), and expenditure and consumption data. The descriptions of each item, such as the quantity required, its lifetime and costs based on actual prices in shops, were set out in detail. In addition,

¹³ Gordon Fisher, "An Overview of Recent Work on Standard Budgets in the United States and Other Anglophone Countries," Working Paper (The Family Budget Unit, 2007), <http://aspe.hhs.gov/poverty/papers/std-budgets/report.pdf>.

¹⁴ Jonathan Bradshaw, eds., *Budget Standards for the United Kingdom* (Aldershot: Avebury, 1993).

the FBU validated its findings with focus groups and by considering the distribution of actual expenditure as reported in the Expenditure and Food Survey.

26. A quite different approach to establishing minimum income standards was developed by the Centre for Research in Social Policy (“CRSP”), University of Loughborough. Instead of relying on experts, the methodology used ordinary people to act as their own budget standard committees. Consensus was reached through discussion on the personal requirements for physical, mental, spiritual and social well-being. The method involved a sequential series of discussion groups. First, a “case study” was agreed (i.e. a hypothetical person with similar circumstances to the discussants). Second, the groups drew up personal requirements (i.e. minimum standards) through a process of discussion. Diaries were kept by participants to assist the process. Third, items were priced by researchers, at outlets agreed by the groups, to produce draft budgets. These were then verified by participants to test the strength of the agreement. At the last stage, the item lists and prices were adjusted to produce a final Consensual Budget Standard.¹⁵
27. In 2008, CRSP and FBU jointly developed a minimum income standard that would allow for an acceptable standard of living in Britain for different family types. The research blended the consensual budget standards method pioneered at CRSP with the FBU experts approach, thus ensuring that the minimum income standards would be rooted in social consensus about the goods and services that were needed by the people, while at the same time drawing on expert knowledge about basic living requirements and actual expenditure patterns.¹⁶
28. The project included an extensive analysis of behavioural data using the Expenditure and Food Survey which helped set the budgets in the context of how families prioritise resources in real life. It drew on previous work to derive a model to establish what income would be required to meet the minimum income standard. It also produced a basis for updating and rebasing the budgets over time. A diagram showing the various research stages of the project is given in Annex C.
29. While the budgets developed in FBU and CRSP’s studies were not prepared primarily for retirement planning, the Norwich Union Retirement Index was developed for such

¹⁵ Christopher Deeming, “Minimum Income Standards: How Might Budget Standards be Set for the UK?” *Journal of Social Policy*, 34, 4 (2005): 623.

¹⁶ Jonathan Bradshaw, Sue Middleton, Abigail Davis, eds., “A minimum income standard for Britain: what people think,” (York: Joseph Rowntree Foundation, 2008), <http://www.jrf.org.uk/sites/files/jrf/2226-income-poverty-standards.pdf>.

purpose. The methodology used for the development of the Norwich Union Retirement Index was much simpler than the one adopted in FBU's study. The Norwich Union Retirement Index analysed pensioner's income from different sources, tax payments and the money they spent on household bills with the data mainly coming from the government's Expenditure and Food Survey. The Norwich Union Retirement Index tracked the share of disposable income that pensioners have left over after they have paid their household bills. A drop in the index indicates that the increase in pensioners' household bills outpaces their income. For instance, the Norwich Union Retirement Index fell from 100 (i.e. the benchmark) in 2001 to 98 in 2005, which revealed that pensioners' disposable incomes were squeezed by the rising household expenditure. (For details, please see Annex D.)

Australia

30. The Westpac/ASFA Retirement Living Standard was developed and is regularly updated by the Social Policy Research Centre ("SPRC") of the University of New South Wales. The Westpac/ASFA Retirement Living Standard was constructed on the basis of SPRC's previous project on indicative household budget standards under commission from the Commonwealth Department of Social Security.
31. The Westpac/ASFA Retirement Living Standard provides two budgets of what a single individual and a couple would need to maintain a modest lifestyle and a comfortable lifestyle in retirement respectively.
32. The modest lifestyle budget allows for basic activities only, thus retirees at modest lifestyle budget would not be able to participate in a range of sport and social activities. For example, both eating out and entertaining at home are very restricted, and no overseas travel is possible. It represents a lifestyle that lies between the standards of survival and those of luxury, corresponding to the median standard of living in the community as a whole.
33. The comfortable lifestyle budget enables retirees to be involved in a broader range of leisure and recreational activities and to have a good standard of living through the purchase of such things as household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipments, and domestic and occasionally international holiday travel. It represents a lifestyle that is common among those in the top (income) quintile of the aged population.

34. In respect of research methodology, the Westpac/ASFA Retirement Living Standard is prepared by, firstly, looking at the goods and services consumed by Australian retirees. This process hinges on the information and statistics available in different surveys and studies. Then the precise prices of the items covered are collected from the market. The draft budgets are further modified by the feedbacks received from the focus groups formed by selected retirees. (For details, please see Annex E.)
35. Based on the figures of March quarter 2009, retired singles would need to spend A\$19,533 a year (equivalent to about HK\$129,400 per year) for a modest lifestyle and A\$37,822 a year (equivalent to about HK\$250,600 per year) for a comfortable lifestyle. (For details, please see Annex F.)

Hong Kong

36. It is a practice of the Census and Statistics Department (“C&SD”) to conduct a Household Expenditure Survey (“HES”) once every five years with the aim of collecting up-to-date information on the expenditure patterns of Hong Kong households. The latest round of HES was conducted in 2004/05 and the major results of this HES were released to the public in May 2006.
37. According to the data collected by the HES, the monthly expenditure of single retirees and retired couples could be illustrated by three expenditure groups (Annex G):
 - a. Low expenditure group – the lowest 25% household expenditure group;
 - b. Medium expenditure group – the middle 25% household expenditure group; and
 - c. High expenditure group – the 75th to 95th percentile household expenditure group.
38. For the low expenditure group, a single retiree, on average, spent HK\$2,260 per month and a retired couple HK\$4,207. For the middle expenditure group, a single spent HK\$5,243 per month and couple HK\$9,611. For the high expenditure group, a single spent HK\$14,133 per month and couple HK\$18,541.
39. However, the HES data may not be a good reference for retirement planning purposes as the retiree expenditure as shown in the HES data is the actual expenditure patterns of the current retirees, which may not reflect their desired lifestyles. This is mainly because the expenditure of current retirees may be constrained by their available resources. Therefore, for the purpose of retirement planning, HES data may underestimate generally desired standard of living in retirement.

Comparison of Budgeting and RR Approaches for Retirement Planning

40. The budgeting approach would appear to have advantages over the RR approach for the purpose of individual retirement planning. The information provided by the budgeting approach would be easier to understand and relate to the expenses incurred in retirement.
41. Under the budgeting approach, notional lifestyles can be expressed via the use of different budgets, like the modest lifestyle and comfortable lifestyle in Westpac/ASFA Retirement Living Standard. Such an approach makes it easier for average people to understand what type of a lifestyle they can expect to enjoy during retirement with a certain budget standard. This would facilitate retirement planning decision-making.
42. Relatively speaking, the RR approach is unable to present clearly what type of lifestyle one can enjoy with a particular level of RR. In addition, the practicality of RR as a retirement planning tool is weakened by the difficulties associated with predicting pre-retirement salary when one is still young and in applying it to a population with wide income dispersion, such as Hong Kong.

III. Industry Practices Regarding Measurement of Retirement Needs

43. To better understand the current market practices in respect of retirement planning, the MPFA had consulted the Institute of Financial Planners in Hong Kong (“IFPHK”). With the assistance of IFPHK, seven separate meetings with its corporate members were conducted.
44. Based on the meetings, it was noted that RR was not a popular retirement planning tool in Hong Kong. It was not a common practice for financial planning consultants to assess clients’ retirement needs by means of RR. There was also no consensus in the industry as to the target RR for retirement planning purpose.
45. More financial planning consultants employed the budgeting approach, by asking clients to estimate their expenditure in retirement. Clients generally found it difficult to estimate how much they would be spending in retirement. As such, several companies had developed software programmes to assist their clients in making the estimate. One company put up different lifestyles in the software programme corresponding to the expenditure groups in C&SD’s HES. The financial planning consultant would ask their clients to indicate their preferred lifestyle. The amount of expenditure in retirement

was estimated on the basis of the selected lifestyle.

46. After estimating clients' retirement needs, financial planning consultants would assist clients in estimating their expected savings upon retirement. Should there be a savings gap, financial planning consultants would provide them with financial solutions, primarily through investing in investment and insurance products.
47. In conjunction with face-to-face planning services, many financial services providers make available various retirement planning tools on their websites for existing or potential clients. Currently, many insurance and financial planning companies have already developed financial planning calculators, which may provide illustrative data to facilitate retirement planning. Some of these tools are accessible by the public through their websites. While some of the illustrative data may be hypothetical in nature, others are based on factual data obtained from official sources. An example of the latter is the financial planning calculator developed by one of the interviewed companies, which makes use of the statistics of C&SD's HES to illustrate the current expenditure patterns of Hong Kong people.

IV. Conclusion

48. In the face of increasing longevity, proper retirement planning is an imminent challenge for many people. To facilitate retirement planning, a person needs to estimate the money that will be needed after retirement. In this connection, there are two major approaches for estimating retirement expenses: the RR and the budgeting approaches. While the RR approach assesses the percentage of working income that an individual needs to maintain the same standard of living in retirement, the budgeting approach measures the amount of money that a person is expected to spend in retirement.
49. Over the past decade, the budgeting approach has gained popularity and has increasingly been adopted by the financial industry for retirement planning purpose. Compared with the RR, the budgeting approach is easier to understand and it has better application to use by individuals. Individuals who are interested in estimating their retirement expense could construct their budgets by pooling their estimated expenses item by item. Since the information on retirement budgets could benefit the retirement planning of the community, public organisations, the financial sector and academic institutions could give consideration to whether they could play a role in facilitating the development of retirement budgets or the sharing of those developed by others.

Annex A

**Methodology Used for Computing Theoretical Gross and Net Pension RRs in
EU Member States**

	Full year before retirement (Denominator)	Full year after retirement (Numerator)	
Gross pre-retirement earnings	A	G	Gross pension income
Employee contributions to pension schemes	- B	H	- Pensioner contribution to pension schemes
Other social insurance contributions other than pension schemes	- C	I	Other social insurance - contributions other than pension schemes
Taxes	- D	J	- Taxes
Means-tested benefits	+ E	K	+ Means-tested benefits
Net pre-retirement income	= F	L	= Net pension income
Gross replacement rate	G/A		
Net replacement rate	L/F		

Source: Indicators Sub-Group (ISG), Social Protection Committee, "Current and Prospective Theoretical Pension RRs," (The European Union, 2006): 136,
http://ec.europa.eu/employment_social/social_protection/docs/isg_repl_rates_en.pdf.

Annex B

Methodology Used for Determining Target RRs by AON Consulting/Georgia State University

-
- A. Gross pre-retirement income
 - B. Pre-retirement taxes
 - + C. Post-retirement taxes
 - = **D. Retirement income needed - Tax Only Model**
 - E. Pre-retirement savings
 - = **F. Retirement income needed - Tax and Savings Model**
 - ± G. Change in expenditures at retirement
 - = **H. Retirement income needed - Expenditure, Tax, and Savings Model**
-

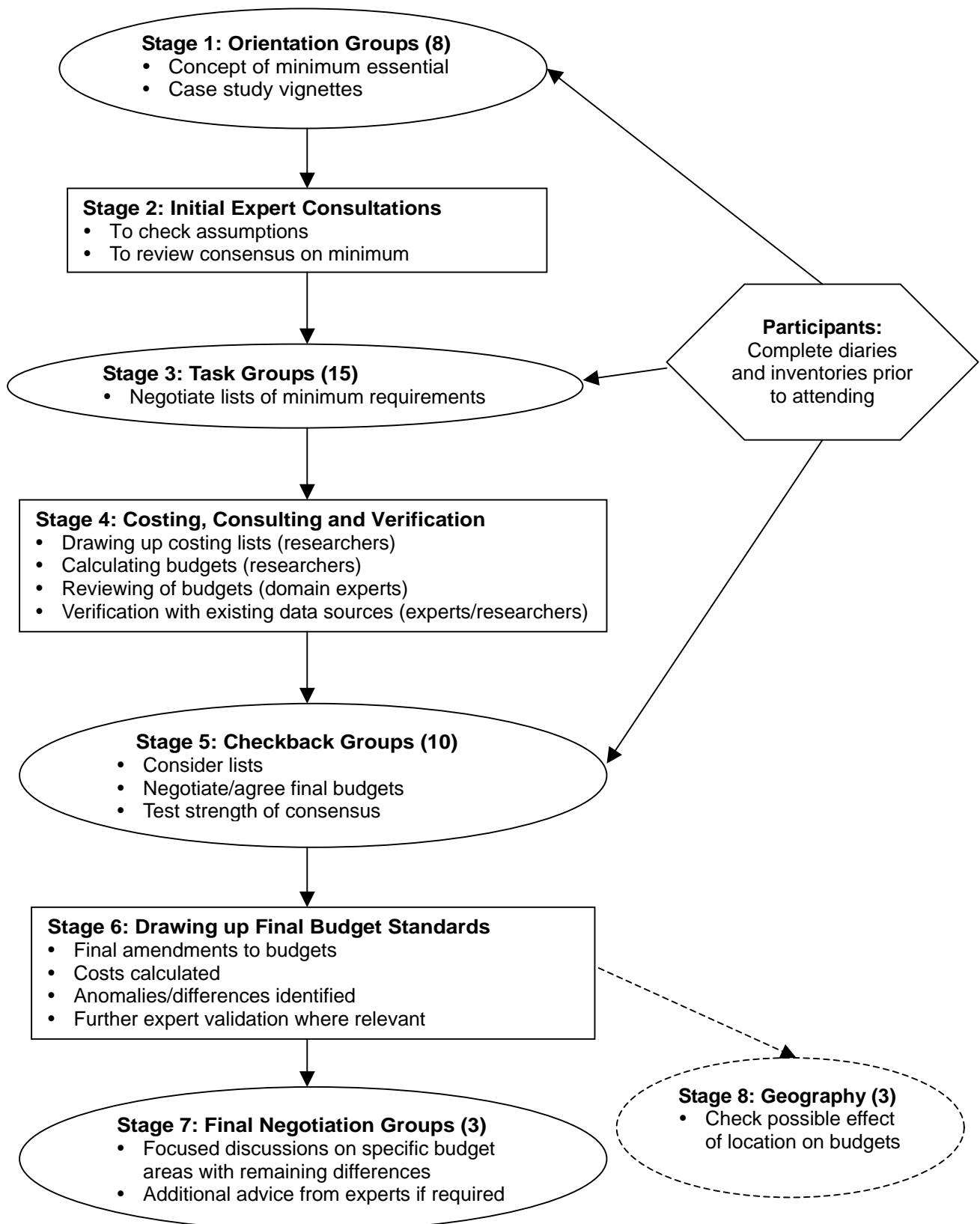
Gross RR calculations:

- Tax Only Model D/A
- Tax and Savings Model F/A
- Expenditure, Tax, and Savings Model H/A

Source: Aon Consulting, "Replacement Ratio Study," (Chicago: Aon Consulting, 2008): 25,
<http://www.aon.com/about-aon/intellectual-capital/attachments/human-capital-consulting/RRStudy070308.pdf>.

Annex C

Research Stages of Minimum Income Standards in Britain



Remark: Numbers in brackets are the number of groups held in that stage.

Source: Jonathan Bradshaw, Sue Middleton, Abigail Davis, eds., "A Minimum Income Standard for Britain: What People Think," (York: Joseph Rowntree Foundation, 2008), <http://www.jrf.org.uk/sites/files/jrf/2226-income-poverty-standards.pdf>.

Annex D

Norwich Union Retirement Index

The Norwich Union Retirement Index is a report on changes in pensioners' income and household spending compiled for the first time by the Centre for Economics and Business Research ("cebr"). The analysis is based on government data from the Expenditure and Food Survey and draws on cebr and Norwich Union's experience in analyzing the pensioner market. The Norwich Union Retirement Index analyses pensioner's income from different sources, tax payments and the money they spend on household bills. The index tracks the share of disposable income that pensioners have left over after they have paid their household bills.

Summary of Norwich Union Retirement Index

This table shows how pensioner household incomes and essential spending have changed since 2000. Over the five year period spending on essential bills increased as a proportion of income. Using 2001 as a benchmark, the far right column shows the changes in the share of income that can be spent on non-essential items.

	Pensioner's annual household spending	Annual income of pensioner households	Retirement index (2001 = 100)
2000	£2,455	£12,366	99.5
2001	£2,471	£12,754	100.0
2002	£2,495	£13,091	100.3
2003	£2,584	£13,366	99.7
2004	£2,771	£13,804	98.7
2005	£2,976	£14,429	98.0

Source: Aviva plc, "UK: Retirement Index Shows How Cost Of Living is Outstripping Pensioners' Income," (December 2006), <http://www.aviva.com/index.asp?PageID=320&category=ourview&year=Latest&newsid=3174>.

Annex E

Methodology of Westpac/ASFA Retirement Living Standard

The study of Westpac/ASFA Retirement Living Standard is conducted by the Social Policy Research Centre (“SPRC”) of the University of New South Wales in Australia. There are two budget standards: modest but adequate (“MBA”) budget standard and comfortably affluent but sustainable (“CAS”) budget standard.

The MBA standard represents a standard that affords full opportunity for old retirees (i.e. aged 70) to participate in the society. Under the MBA standard, a retiree is able to afford fairly basic activities. It is seen as lying between the standards of survival and those of luxury, corresponding to the median standard of living in the community as a whole.

The CAS standard reflects a standard of living that allows old retirees to engage actively with a broad range of leisure and recreational activities and have a good standard of living through purchasing or enjoying such things as household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel. It represents a lifestyle that is common among those in the top (income) quintile of the aged population. The CAS standard was developed in stages from the MBA.

The MBA standard was built up from detailed budgets developed in nine separate but inter-connected areas: housing; energy; food; clothing and footwear; household goods and services; health; transport; leisure and personal care. Of these nine areas, four of them (housing, energy, household goods and services and transport) were developed for the household as a whole, while the remaining five were basically developed separately for each individual and then added up.

The main areas where the approach relied extensively on existing norms were housing and food, health and leisure. In the area of housing, occupancy standards were used to determine the number of bedrooms on the basis of household size and composition. In the areas of food, health and leisure, it was assumed that people were in good health and live “healthy lives”. The National Health and Medical Research Council dietary guidelines were used to develop the food budget and the leisure budget, which allowed for regular forms of exercise, including swimming.

The remaining budgets were heavily influenced by behavioural patterns, as reported in publications released by the Australian Bureau of Statistics and in related material from a range of sources, including research on living standards conducted by the Australian Institute of Family Studies and other empirical studies on energy usage and the leisure patterns of Australian households and individuals.

In determining which items to include in the budgets, a rule of thumb “ownership rule” was applied, under which only those items owned, services used or activities undertaken by at least 50% of households were included.

The budget standards were first validated by the behavioural data such as the Household Expenditure Survey. Further validation was performed by showing the initial budgets to a series of focus group consisted of people in households to which the budgets corresponded and getting their feedback on the relevance and accuracy of the preliminary budgets. Wherever possible, items were identified and priced at leading retail outlets.

Source: Peter Saunders, Roger Patulny and Adeline Lee, “Updating and Extending Indicative Budget Standards for Older Australians – Final Report,” SPRC Report 2/04 (Sydney: Social Policy Research Centre, University of New South Wales, January 2004), http://www.sprc.unsw.edu.au/reports/ASFA_Report.pdf.

Annex F

Westpac/ASFA Retirement Living Standard – Modest and Comfortable Lifestyle

The modest budget allows for a basic lifestyle. For example, both eating out and entertaining at home is very restricted, and no overseas travel is possible. The extra expenditure associated with a shift from a modest lifestyle to a comfortable lifestyle in retirement adds a lot to enjoyment, comfort, style, holiday travel, health insurance cover, and the ability to more fully participate in the community. At the modest budget level many retirees would not be able to participate in a range of sport and social activities.

Enjoyment

The “comfortable budget” allows for entertaining at home on a fortnightly basis, seven glasses of wine (or equivalent refreshment) a week and eating out three times a week at a club restaurant or once a week at a more expensive restaurant.

The comfortable budget also allows to spend A\$20 a week per person in total for expenditure on items such as drinks at the club, some gambling on lottery tickets or the like, tobacco purchases (if a smoker), or gifts to family or organizations if this is the preferred form of enjoyment.

The comfortable budget also allows for the purchase of some magazines, compact discs and DVDs, allowing greater enjoyment of printed material, music and movies.

Comfort

The comfortable budget provides for purchase and running of an air conditioning unit and a dishwasher.

It also provides greater comfort and security by allowing for expenditure on a home security system and a pest control service.

The comfortable budget also allows for more and better personal care items, which covers items such as hairdressing, cosmetics and accessories. This contributes to style as well as comfort, with greater access to department store rather than chain store cosmetics, and use of a stylish hairdressing salon rather than taking advantage of the pensioner special day.

Style

The comfortable budget allows for a greater number and range of clothing purchases. This also can be more stylish and expensive clothing and from an upmarket department store, rather than relatively cheap clothing from a discount chain of stores. For a dress, it is, for instance, the difference between a A\$150 a piece and A\$50 a piece.

The comfortable budget allows for replacement of a bathroom and kitchen during the retirement years rather than these items being left untouched for 20 or more years. Better quality white goods for the kitchen and laundry can also be purchased every 15 years or so.

The comfortable budget also allows for the purchase and operation of a more modern motor vehicle.

Health

The comfortable budget allows for top grade private health insurance and a range of non-prescription items such as vitamin pills and blood pressure monitor. The budget amount would allow for other equivalent cost items where appropriate.

Holidays

The modest budget only allows for an annual holiday in budget accommodation not far from home, costing no more than A\$450 for a single person. The comfortable budget allows for a budget overseas trip every five years, and up to 10 domestic trips each year to visit family, friends or to holiday.

Participate in Modern Society

The comfortable budget allows for purchase and operation of a personal computer (and accessories), a mobile phone and a digital camera.

	Modest Lifestyle (Cost A\$ Per Week)		Comfortable Lifestyle (Cost A\$ Per Week)	
	Single	Couple	Single	Couple
Housing – ongoing only*	\$70.69	\$73.11	\$93.91	\$96.33
Energy	\$12.99	\$15.47	\$14.21	\$16.70
Food	\$70.91	\$149.24	\$140.67	\$198.31
Clothing	\$14.60	\$25.19	\$30.83	\$56.23
Household Goods and Services	\$49.57	\$52.50	\$88.10	\$93.21
Health	\$13.04	\$24.57	\$54.92	\$108.01
Transport	\$71.51	\$72.31	\$109.13	\$109.93
Leisure	\$44.86	\$74.27	\$143.51	\$206.04
Personal Care	\$26.42	\$41.64	\$26.42	\$41.64
Gifts and/or Alcohol and Tobacco	-	-	\$23.65	\$47.30
Total Per Week	\$374.60	\$528.30	\$725.36	\$973.68
Total Per Year	\$19,533	\$27,547	\$37,822	\$50,771

* This assumes the retiree owns their home.

Source: The Association of Superannuation Funds of Australia Limited (ASFA), "The Impact of Moving from a Modest Lifestyle in Retirement to a Comfortable Lifestyle," Westpac-ASFA Retirement Budget report (Sydney: ASFA, February 2004), <http://www.superannuation.asn.au/RS/default.aspx>; and "Fun in Retirement?" (24 July 2009), <http://www.superannuation.asn.au/mr090724/default.aspx>.

Annex G

**Hong Kong Average Monthly Household Expenditure
of Selected Household Composition by Expenditure Group**

a. Single Retired Person Household

Commodity/service section/group		Household Expenditure Group #					
		Low		Middle		High	
		(HK\$)	(%)	(HK\$)	(%)	(HK\$)	(%)
Food	Meals bought away from home	221	9.8	542	10.3	1,303	9.2
	Food, excluding meals bought away from home	527	23.3	653	12.5	1,285	9.1
	Sub-total	748	33.1	1,195	22.8	2,588	18.3
Housing		1,024	45.3	2,673	51.0	6,896	48.8
Electricity, gas and water		178	7.9	273	5.2	374	2.6
Alcoholic drinks and tobacco		13	0.6	42	0.8	129	0.9
Clothing and footwear		4	0.2	91	1.7	608	4.3
Durable goods		14	0.6	165	3.2	383	2.7
Miscellaneous goods	Proprietary medicines and supplies	23	1.0	94	1.8	164	1.2
	Newspapers	32	1.4	48	0.9	83	0.6
	Soft furnishings	1	0.1	6	0.1	8	0.1
	Cosmetics and personal care products	14	0.6	33	0.6	96	0.7
	Household cleansing tools and supplies	5	0.2	20	0.4	24	0.2
	Others	11	0.5	72	1.4	231	1.6
	Sub-total	87	3.8	272	5.2	606	4.3
Transport	Bus fares	21	0.9	31	0.6	61	0.4
	Public light bus fares	2	0.1	14	0.3	10	0.1
	Taxi fares	*	*	5	0.1	50	0.4
	Mass Transit Railway fares	1	*	21	0.4	56	0.4
	Train fares	*	*	12	0.2	7	*
	Others	5	0.2	20	0.4	242	1.7
	Sub-total	29	1.3	103	2.0	425	3.0

Commodity/service section/group		Household Expenditure Group #					
		Low		Middle		High	
		(HK\$)	(%)	(HK\$)	(%)	(HK\$)	(%)
Miscellaneous services	Medical services	51	2.3	191	3.6	187	1.3
	Cinema entertainment	2	0.1	4	0.1	23	0.2
	Package tours	3	0.1	10	0.2	120	0.8
	Other entertainment and holiday expenses	1	*	7	0.1	78	0.6
	Household services	4	0.2	39	0.7	1,119	7.9
	Hair-dressing, beauty treatment and fitness services	2	0.1	8	0.2	48	0.3
	Telephone and other communications services	97	4.3	163	3.1	268	1.9
	Others	3	0.1	7	0.1	282	2.0
	Sub-total	163	7.2	428	8.2	2,124	15.0
Overall		2,260	100.0	5,243	100.0	14,133	100.0

Low expenditure group refers to the lowest 25% household expenditure group.

Middle expenditure group refers to the middle 25% household expenditure group.

High expenditure group refers to the 75th- to 95th- percentile household expenditure group.

* Smaller than \$0.5 or 0.05%.

Note:

- (1) Including households with one retired person only, with or without live-in domestic helpers.
- (2) Figures may not sum up to the total due to rounding.
- (3) The sample sizes of the selected groups are relatively small and the data may be subject to relatively large sampling error.

Source: Census and Statistics Department (C&SD), "2004/05 Household Expenditure Survey".

b. Retired Couple Household

Commodity/service section/group		Household Expenditure Group #					
		Low		Middle		High	
		(HK\$)	(%)	(HK\$)	(%)	(HK\$)	(%)
Food	Meals bought away from home	435	10.3	826	8.6	2,063	11.1
	Food, excluding meals bought away from home	1,232	29.3	1,691	17.6	2,193	11.8
	Sub-total	1,666	39.6	2,517	26.2	4,256	23.0
Housing		1,492	35.5	4,940	51.4	8,307	44.8
Electricity, gas and water		342	8.1	430	4.5	558	3.0
Alcoholic drinks and tobacco		27	0.7	68	0.7	77	0.4
Clothing and footwear		19	0.5	108	1.1	524	2.8
Durable goods		50	1.2	237	2.5	458	2.5
Miscellaneous goods	Proprietary medicines and supplies	23	0.6	80	0.8	261	1.4
	Newspapers	64	1.5	112	1.2	116	0.6
	Soft furnishings	2	*	4	*	59	0.3
	Cosmetics and personal care products	29	0.7	63	0.7	196	1.1
	Household cleansing tools and supplies	12	0.3	24	0.2	51	0.3
	Others	26	0.6	97	1.0	168	0.9
	Sub-total	156	3.7	380	3.9	851	4.6
Transport	Bus fares	54	1.3	106	1.1	123	0.7
	Public light bus fares	11	0.3	17	0.2	50	0.3
	Taxi fares	5	0.1	21	0.2	85	0.5
	Mass Transit Railway fares	10	0.2	20	0.2	54	0.3
	Train fares	7	0.2	16	0.2	23	0.1
	Others	19	0.4	54	0.6	357	1.9
	Sub-total	105	2.5	233	2.4	691	3.7

Commodity/service section/group		Household Expenditure Group #					
		Low		Middle		High	
		(HK\$)	(%)	(HK\$)	(%)	(HK\$)	(%)
Miscellaneous services	Medical services	152	3.6	254	2.6	1,117	6.0
	Cinema entertainment	*	*	*	*	3	*
	Package tours	23	0.5	28	0.3	146	0.8
	Other entertainment and holiday expenses	8	0.2	17	0.2	26	0.1
	Household services	*	*	99	1.0	1,024	5.5
	Hair-dressing, beauty treatment and fitness services	7	0.2	40	0.4	54	0.3
	Telephone and other communications services	151	3.6	201	2.1	340	1.8
	Others	7	0.2	59	0.6	109	0.6
	Sub-total	348	8.3	698	7.3	2,820	15.2
Overall		4,207	100.0	9,611	100.0	18,541	100.0

Low expenditure group refers to the lowest 25% household expenditure group.

Middle expenditure group refers to the middle 25% household expenditure group.

High expenditure group refers to the 75th- to 95th- percentile household expenditure group.

* Smaller than \$0.5 or 0.05%.

Note:

- (1) Including households with one retired couple, with or without live-in domestic helpers.
- (2) A retired couple consists of two retired persons; or one retired person plus one other economically inactive person such as homemaker or person of independent means.
- (3) Figures may not sum up to the total due to rounding.
- (4) The sample sizes of the selected groups are relatively small and the data may be subject to relatively large sampling error.

Source: Census and Statistics Department (C&SD), "2004/05 Household Expenditure Survey".