Towards Retirement Security
Snippets from the book

1. The first-ever pension scheme was for military personnel 2,000 years ago.

The first pension scheme was established by Augustus, the founder of the Roman Empire, in 13BC. It was offered to veteran legionnaires who had served for a period of at least 16 years in a legion and four years in the military reserves. Pension benefits were roughly equivalent to 75% of a worker's annual earnings.

2. Germany introduced the first large-scale, formal mandatory pension system for workers in the 19th century.

The pension system established by Chancellor Otto von Bismarck in Germany in 1889 is often considered the first formal mandatory public pension system in the world. At its inception, about 40% of workers in Germany were covered by the new system, which had great influence around the world.

3. The World Bank's multi-pillar retirement-protection framework is a guiding light for many.

In 1994, the World Bank recommended a three-pillar approach to address the issue of retirement protection. In 2005, in the light of operational experience, the World Bank expanded the three pillars to five:

Pillar Zero:	a non-contributory, publicly financed and managed system that provides a minimal level of retirement protection;
Pillar One:	a mandatory, contributory, publicly managed system;
Pillar Two:	a mandatory, privately managed, fully funded contribution system;
Pillar Three:	voluntary savings (e.g. personal savings and insurance); and
Pillar Four:	informal support (e.g. family support), other formal social programmes (e.g. health care and housing), and other individual assets (e.g. home ownership).

Whether and how to set up each pillar depends on the local circumstances of each jurisdiction.

4. There are 32 second pillar systems around the world.

Chile's second-pillar system, which was established in 1981, is commonly considered to have been the first second pillar system in the world. The MPF System, also a second pillar system, was launched about 20 years later. In 2014, 32 second pillar systems were in operation in different parts of the world.

5. **Second pillar systems are actuarially fair and financially sustainable.**

Second pillar systems are intended to help workers save for retirement. Members are eligible to withdraw only savings accumulated in their own account, and the amount of their benefits is usually linked to the amount of their contributions. The system is therefore actuarially fair to all members. Since the accumulated assets are able to or expected to be able to meet all the future pension benefits payable to members, second pillar systems are also financially sustainable.

Pay-as-you-go systems, in which pension benefits received by current retirees are usually funded by the contributions of current workers, are common in overseas countries. The financial sustainability of these systems is often an issue of concern, however, because as the population ages, the working population shrinks, and the contributions from current workers may not be enough to cover the pensions of retirees.

6. The MPF System alone is not sufficient to cover all the retirement needs of the Hong Kong population.

As a second pillar system, the MPF System is intended to provide basic retirement protection for the employed population of Hong Kong. By its nature, the MPF System alone is not sufficient to cover all retirement needs of the population. For instance, the MPF System is employment-related and therefore offers no protection for people who are not employed or not self-employed.

Hong Kong's current retirement protection framework is made up of different pillars (including Government-provided social security programmes, personal savings/investments, family support and other social services, such as health care, elderly care services and public housing). The different pillars need to work together to provide total retirement protection for the whole population.

7. Voluntary contributions are growing in popularity.

Both voluntary contributions (VC) and special voluntary contributions (SVC) made under the MPF System have recorded strong growth in recent years. The amount of VC (made by both employers and employees) and SVC made in the second quarter of 2015 were three times and 55 times, respectively, the amounts made in the fourth quarter of 2005.

In overseas countries as well, voluntary retirement savings schemes have recorded a substantial increase in assets in recent years. For example, in the US, the total assets of 401(k) plans increased five times in 20 years, from US$675 billion in 1994 to US$4,190 billion in 2013, and in New Zealand, the asset size of Kiwisaver increased 23-fold in six years, from NZ$701 million in 2008 to NZ$16,565 million in 2013.

8. The percentage of elderly people in Hong Kong will more than double from 15% to 33% in 50 years.

According to the Census and Statistics Department:

- the age group 65 and above is projected to rise markedly from 15% of the population in 2014 to 33% in 2064;
- in 2014, the life expectancy (at birth) in Hong Kong was 81.2 years for males and 86.9 years for females; by 2064, this is predicted to rise to 87.0 and 92.5 years, respectively, and
- the elderly dependency ratio (ratio of those aged 65 and above to those from 15 to 64) of Hong Kong is predicted to increase from 19.8% in 2014 to 56.7% in 2064.

In other words, whereas in 2014, for every 1,000 younger people, there were 198 elderly people, in 2064, for every 1,000 younger people, there will be 567 elderly people. This means the working population will have a larger number of retirees to support for a longer period of time in the years to come. Hong Kong's ageing population will pose a serious challenge to Hong Kong's retirement protection in the future.

Mandatory Provident Fund Schemes Authority
27 November 2015