


Hong Kong

Hong Kong: pension system in 2008

Employees including part-time and self-employed workers are required to join Mandatory Provident Fund (MPF) scheme. MPF is a defined contribution scheme.

Key indicators

		Hong Kong	OECD
Average earnings	HKD	243 500	314 600
	USD	31 400	40 600
Public pension spending	% of GDP		7.0
Life expectancy	At birth	82.3	78.9
	At age 65	85.4	83.1
Population over age 65	% of working-age population	17.0	23.6

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Qualifying conditions

For the modelling the pension age is 65 for men and women.

Benefit calculation

Defined contribution

For the private sector employee, the amount of contribution depends on the income levels. Employees do not need to pay contribution if the monthly income is lower than HKD 5 000 and they pay at least 5% of earnings if the income is between HKD 5 000 and HKD 20 000. The maximum contribution is capped at HKD 1 000. Employers contribute at least 5% of employee's earnings up to the maximum level of HKD 1 000. Slightly different rules are applied to the self-employed. Indexation of pensions in payment is discretionary; the model uses price indexation. The scheme members can withdraw all their accrued benefits in a lump sum at retirement. For comparison with other economies, for replacement rate purposes the pension is shown as a price-indexed annuity based on sex-specific mortality rates.

Targeted/Basic

The old-age allowance has two levels. Normal old age allowance (NOAA) is means-tested and provided to those between 65 and 69. For a single person, the asset limit is HKD 169 000 and monthly income limit is HKD 5 910 (after which benefits are withdrawn). Limits for married couples are higher (HKD 254 000 and HKD 9 740, respectively). The full benefit is HKD 1 000 per month, which is about 4.9% of average earnings.

Higher older age allowance (HOAA) is for those aged 70 and above. It is a basic plan: paying a flat amount of HKD 1 000 per month with no claw-back. Again, there is no formal indexation rule, so the modelling assumes price indexation.

Variant careers

Early retirement

It is possible to retire and to receive the DC lump sum benefit at age 60. However, the targeted/basic programme does not provide benefits until 65.

Late retirement

It is possible to continue working after receiving the lump sum benefit.

Personal income tax and social security contributions**Taxation of workers**

There are various tax relief systems in Hong Kong but they are not relevant to the standard individual (single without a child) used for the model. MPF contributions are tax deductible up to HKD 12 000 per year.

Taxation of worker's income

The lower of the following two tax rules is applied. The first rule is described in the following tax schedule. This is applied to taxable income (after deductions and allowances). The basic allowance for a single person in 2008 is HKD 108 000.

Annual taxable income (HKD)	Tax rate (%)
40 000	2
40 000-80 000	7
80 000-120 000	12
> 120 000	17

The second rule is a standard rate of 15% multiplied by assessable income after deductions but before allowances.

Social security contributions payable by workers

The employed contribute to the MPF system with a contribution of 5% of their earnings up to the maximum level of HKD 1 000 per month.

Taxation of pensioners

There is no additional tax relief for pensioners.

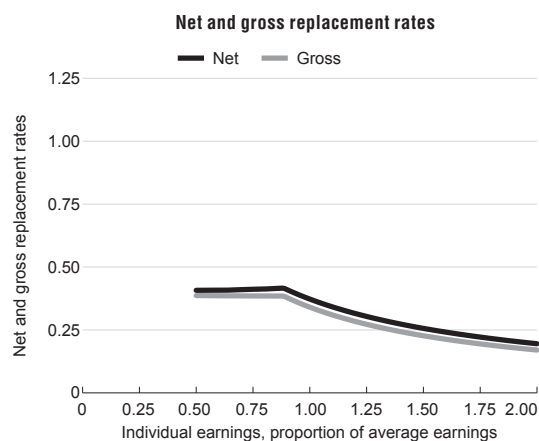
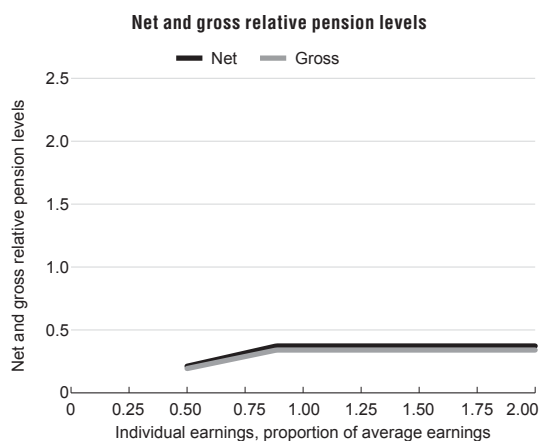
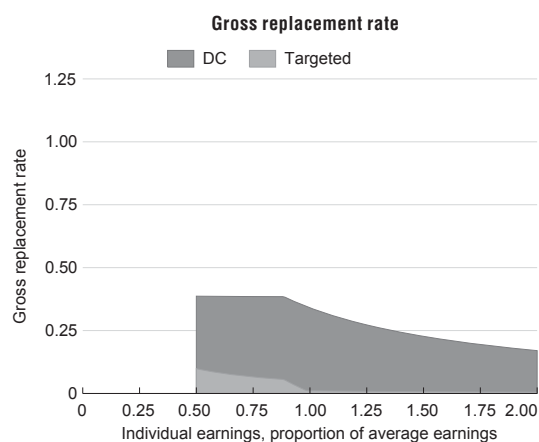
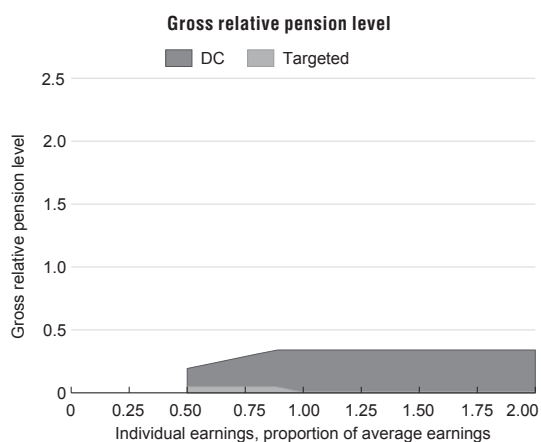
Taxation of pension income

The same taxation rule is applied to pension benefits.


Social security contributions payable by pensioners

Pensioners do not pay any social security contribution.

Pension modelling results: Hong Kong



Men	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	31.2	19.3	28.9	34.1	34.1	34.1
(% average gross earnings)	27.1	17.1	25.2	32.8	32.8	32.8
Net relative pension level	34.1	21.2	31.6	37.3	37.3	37.3
(% net average earnings)	29.7	18.7	27.6	35.9	35.9	35.9
Gross replacement rate	38.5	38.7	38.5	34.1	22.7	17.0
(% individual gross earnings)	33.5	34.2	33.6	32.8	21.9	16.4
Net replacement rate	41.3	40.8	41.2	37.3	25.6	19.5
(% individual net earnings)	35.9	36.1	35.9	35.9	24.7	18.8
Gross pension wealth	6.5	6.5	6.5	5.7	3.8	2.9
(multiple of individual gross earnings)	6.7	6.8	6.7	6.5	4.3	3.3
Net pension wealth	6.5	6.5	6.5	5.7	3.8	2.9
(multiple of individual gross earnings)	6.7	6.8	6.7	6.5	4.3	3.3

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Alternative economic and career length assumptions

40 year career under OECD economic assumptions

Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	27.3	17.2	25.4	33.0	33.0	33.0
(% average gross earnings)	23.9	15.3	22.2	28.7	28.7	28.7
Net relative pension level	29.9	18.8	27.8	36.2	36.2	36.2
(% net average earnings)	26.1	16.8	24.3	31.4	31.4	31.4
Gross replacement rate	33.7	34.4	33.8	33.0	22.0	16.5
(% individual gross earnings)	29.4	30.6	29.6	28.7	19.1	14.3
Net replacement rate	36.2	36.3	36.1	36.2	24.9	18.9
(% individual net earnings)	31.6	32.3	31.6	31.4	21.6	16.5
Gross pension wealth	5.7	5.8	5.7	5.6	3.7	2.8
(multiple of individual gross earnings)	5.9	6.1	5.9	5.7	3.8	2.9
Net pension wealth	5.7	5.8	5.7	5.6	3.7	2.8
(multiple of individual gross earnings)	5.9	6.1	5.9	5.7	3.8	2.9

30 year career under OECD economic assumptions

Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	20.4	13.4	19.1	24.4	24.4	24.4
(% average gross earnings)	18.0	12.1	16.9	21.4	21.4	21.4
Net relative pension level	22.3	14.7	20.9	26.7	26.7	26.7
(% net average earnings)	19.7	13.2	18.5	23.4	23.4	23.4
Gross replacement rate	25.2	26.8	25.4	24.4	16.2	12.2
(% individual gross earnings)	22.2	24.2	22.5	21.4	14.2	10.7
Net replacement rate	27.0	28.3	27.1	26.7	18.3	14.0
(% individual net earnings)	23.9	25.5	24.0	23.4	16.1	12.2
Gross pension wealth	4.2	4.5	4.3	4.1	2.7	2.0
(multiple of individual gross earnings)	4.4	4.8	4.5	4.2	2.8	2.1
Net pension wealth	4.2	4.5	4.3	4.1	2.7	2.0
(multiple of individual gross earnings)	4.4	4.8	4.5	4.2	2.8	2.1

StatLink  <http://dx.doi.org/10.1787/888932554679>