

# Financial preparedness in later life:

*An investigation of Hong Kong and the UK employees surveys?*

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# Motivation

- As the ageing of populations continues into the 21<sup>st</sup> century, financial preparedness becomes an increasingly important issue both for the individual and other providers such as the state, employers, families, and financial institutions.
- The financing of later life seems to be even more important for economically advanced nations as populations continue to age and prospects of continued increasing longevity seem real.
- Integral components of financial preparedness are, among others, an individual's attitudes towards responsibility for financial security in old age and towards his/her own financial prospects.

- The connection between retirement, old age, poverty and social isolation for groups of the populations seems to be well-established in research.
- Much of the debate focuses on financial preparedness and the inability of individuals to prepare financially for their old age.
- But as far as understanding financial preparedness is concerned, it seems that individuals have great difficulty in planning and choosing the level of their financial saving patterns in old age.
- Moreover, little is known about the attitudes of employees in work towards their retirement savings in later life.

# Pension systems in the UK and Hong Kong

In order to illustrate the impact of changing age demographics on pension and retirement savings pattern, we will draw upon the experiences of older people in the UK and Hong Kong.

Because Hong Kong was a former British colony, the two economies feature a number of institutional similarities including regulatory business systems, limited welfare provision, short-term employment relationships and the dominance of small businesses.

Both economies feature residual welfare states in which the state only intervenes when provision via the private market and the family have failed.

Social welfare is primarily provided directly by the state and paid for by social insurance contributions.

The first tier of the UK pension is a universal pension set at £113.10 per week as of 2015 as a basic for a single person. A means-tested pension credit is paid to older people who have no other means of income. The pension age for men is 65 and for women, between 2010 and 2018, is rising from 60 to 65.

The first-tier pension in Hong Kong is considerably less generous both in terms of benefits paid and timing when it starts. The Old Age Allowance is a universal social benefit for people 70 years and over, and a means-tested Old Age Living Allowance for people 65-69.

Pensions are funded through employee and employer matched contributions rather than directly by the state.

In both economies, second-tier pensions exist (i.e. those which are occupational and based on earning), although in both cases, there have been significant variations in occupational pension provision. Prior to the introduction of MPF, only 35% of Hong Kong residents had access to an occupational pension, while the UK Pension Commission concluded that 12 million British workers, almost 40% of the total, were under-saving to retirement.

At the same time, the two populations have been ageing. Both governments have responded to the widening pension gap through bold initiatives to extend access to second-tier pensions. Therefore, an appropriate measure is to encourage greater savings as pension ages are likely to continue to rise.

# Big Data in Financial Security

- Financial security is a must to safeguard the poverty and vulnerability of older adults in many countries.
- Therefore, big data can play an important role to understand the current situation of financial preparedness of individuals across various segments of populations.
- Comparing multiple sources of data can help to identify robust estimates which eventually can help us to generalise the research findings.
- Such research result would be useful for public policy formulation and necessary actions.

# Aim and Objectives

- Aim:
  - The aim of the study is to evaluate the preparedness of employees for later life in both the UK and Hong Kong.
- Objectives:
  - To identify type of saving products employees choose for the security in later life.
  - To tease out the factors associated with retirement savings.
  - To examine the key determinants of retirement saving products.

# Methodology

## The Survey:

- In September 2014, an online survey of people 45+ years in work was conducted in the UK and Hong Kong. The survey gathered data from 1600 employees (i.e. excluding self-employed, unemployed, inactive, and retired).
- Selection criterion was used to ensure 50/50 gender representation as well as close representation by industrial sector. Demographic criteria was gathered which include: family income (in which the sample groups are divided into quintiles); occupational group as well as career trajectory (including whether the respondent had career interruptions as a result of having had caring responsibilities or unemployment); present caring responsibilities; working hours and employment contractual arrangements; and self assessment of health.

- The survey asks a number of questions on pension and retirement savings which we will explore in this paper. Specifically:
  - What sources of income and wealth the respondent is planning to draw from to finance her/his retirement (including state pension, employer provided pension, family support, personal savings; continued paid work and don't know). Hong Kong respondents were also given the option of picking MPF. Multiple choices were allowed.
  - How aware the respondent is of what her/his retirement income will be once (s)he retires (five point scale from very aware to not at all aware)
  - Level of satisfaction/dissatisfaction with retirement savings and pensions.

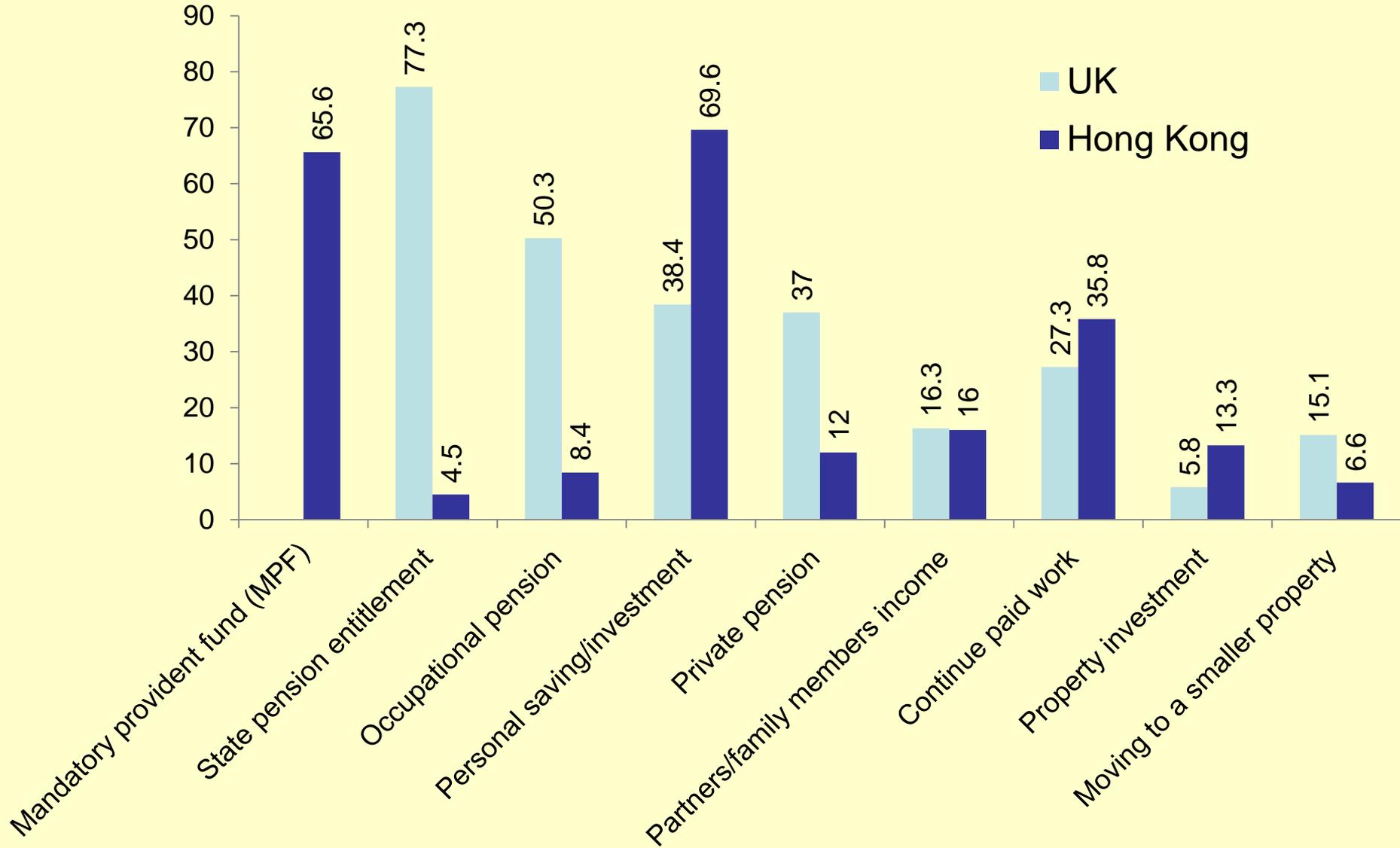
- In addition, we ask questions about retirement plans, including:
  - Age at which the respondent is planning to retire (including the option to say ‘no planned retirement age’)
  - Why chosen retirement age was picked, including voluntary reasons (e.g. this is the age I want to retire); involuntary reasons (e.g. this is my employer’s specified retirement age); financial reasons (e.g. this is the age when I receive a full pension) and work related (e.g. my job is too physically demanding to work longer)
  - Whether the respondent is looking forward to retirement

## Question asked: *How do you plan to finance your retirement?*

- Variables:
  - Dependent variables used being Mandatory provident fund (MPF), State pension entitlement, Occupational pension, Personal saving/investment, Private pension, Partners/family members income, Continue paid work, Property investment, Moving to a smaller property
  - Selected independent variables such as age, sex, marital status, occupation, household income, education, type of contract, trade union membership and so forth)

- **Statistical tools used:**
  - EDA analysis
  - Correlation analysis
  - Multiple regression analysis
  - Logistic regression analysis

# Results





	Mandatory provident fund (MPF)	State pension entitlement	Occupational pension	Personal saving/investment	Private pension	Partners/family income	Continue paid work	Property investment	Moving to a smaller property
	<b>UK</b>								
<b>Gender</b>	-	ns	P<.001	P<.01	P<.001	P<.01	ns	ns	ns
<b>Age group</b>	-	P<.001	ns	P<.001	ns	ns	ns	ns	ns
<b>Occupation</b>	-	ns	P<.001	ns	P<.001	ns	ns	ns	ns
<b>Type of contract</b>	-	ns	P<.001	ns	ns	ns	P<.001	ns	P<.05
<b>Marital status</b>	-	ns	ns	ns	ns	P<.001	P<.05	ns	ns
<b>Household income</b>	-	ns	P<.001	P<.001	P<.001	P<.001	ns	P<.001	P<.001
<b>Education</b>	-	ns	P<.001	P<.001	ns	P<.05	ns	P<.01	ns
<b>Member of trade union</b>	-	P<.05	P<.001	ns	P<.001	ns	ns	P<.05	ns
<b>Health status</b>	-	ns	ns	P<.001	ns	ns	ns	ns	P<.05
<b>Retirement age</b>	-	P<.05	P<.05	P<.001	ns	P<.05	P<.001	P<.05	ns
<b>Full retirement</b>	-	P<.001	P<.001	P<.001	P<.05	P<.05	P<.001	P<.05	ns
<b>Pension/retirement income</b>	-	ns	P<.001	P<.001	ns	ns	ns	P<.05	ns
<b>Optimistic about the future</b>	-	ns	P<.001	P<.001	P<.001	P<.05	ns	P<.001	ns
<b>Life is as close to</b>	-	ns	ns	P<.001	ns	P<.001	P<.05	P<.01	ns
	<b>Hong Kong</b>								
<b>Gender</b>	ns	ns	P<.01	ns	ns	P<.001	ns	P<.05	ns
<b>Age group</b>	ns	ns	ns	ns	ns	P<.05	ns	ns	ns
<b>Occupation</b>	ns	P<.001	ns	P<.05	P<.01	P<.05	P<.05	ns	ns
<b>Type of contract</b>	ns	ns	P<.001	ns	ns	ns	P<.05	P<.01	ns
<b>Marital status</b>	ns	ns	ns	ns	P<.05	P<.001	ns	ns	ns
<b>Household income</b>	ns	ns	P<.05	P<.001	P<.05	P<.01	P<.05	P<.001	ns
<b>Education</b>	ns	ns	P<.05	P<.001	P<.05	ns	P<.05	P<.001	ns
<b>Member of trade union</b>	ns	P<.05	ns	P<.05	ns	P<.05	ns	ns	ns
<b>Health status</b>	P<.05	ns	ns	P<.05	P<.05	ns	ns	P<.001	ns
<b>Retirement age</b>	P<.001	ns	ns	ns	ns	ns	P<.01	ns	ns

	UK	Hong Kong
<b>Covariates</b>	OLS regression	OLS regression
<b>Gender: Male</b>	.065	-.214*
<b>Occupation:</b>		
<b>Manufacturing</b>	-.044	-.228
<b>Banking or finance</b>	-.014	-.344*
<b>Health care services</b>	.006	-.020
<b>Marital status: Single</b>	-.165	-.289*
<b>Household income:</b>		
<b>Bottom 20%</b>	-1.598***	-.930***
<b>20-39%</b>	-.952***	-.505***
<b>40-59%</b>	-.586**	-.181
<b>60-79%</b>	-.268	-.068
<b>Education:</b>		
<b>Higher</b>	.230	.871**
<b>Secondary</b>	.417	.542
<b>Member of trade union: yes</b>	.006	.370**
<b>Retirement age planned:</b>		
<b>Less than 60</b>	-.231	-.332**
<b>60-64</b>	.008	-.117
<b>Life is as close to how I would want it to be:</b>		
<b>Strongly agree or agree</b>	-.189	-.209
<b>Neither agree or disagree</b>	-.031	-.380*

## Results of Logistic Regression analysis for selected covariates (Dependent variable is dummy (0= No financial plan for later life, 1= yes, at least one financial security plan))

Covariates	UK			Hong Kong		
	Odds Ratios	95% CI		Odds Ratios	95% CI	
<b>Sectors:</b>						
<b>Manufacturing</b>	1.190	.358	3.956	.028	.021	1.666
<b>Banking or finance</b>	1.591	.407	6.216	.085*	.009	.825
<b>Health care services</b>	1.125	.383	3.305	.366	.036	3.739
<b>Household income:</b>						
<b>Bottom 20%</b>	.112*	.011	.999	.036**	.004	.287
<b>20-39%</b>	.323	.035	3.009	.247	.035	1.737
<b>40-59%</b>	.558	.060	5.160	.620	.095	4.066
<b>60-79%</b>	1.257	.098	16.203	.376	.067	2.106
<b>Education:</b>						
<b>Higher</b>	1.316	.545	3.175	26.551**	2.063	341.639
<b>Secondary</b>	2.443	.630	9.478	8.081*	1.072	60.898
<b>Member of trade union: Yes</b>	3.403*	1.022	11.333	.913	.248	3.370
<b>Full retirement:</b>						
<b>Yes</b>	2.468	.859	7.091	5.469*	1.030	29.043
<b>Relaxed</b>	1.265	.478	3.350	1.927	.591	6.282
<b>Pension/retirement income:</b>						
<b>Very aware</b>	6.740*	1.217	37.326	7.538*	1.544	36.803
<b>Aware</b>	3.051*	1.001	9.347	6.531***	2.514	16.969
<b>vaguely aware</b>	1.491	.540	4.111	2.112	.806	5.536
<b>Life is as close to how I would want it to be:</b>						
<b>Strongly agree or agree</b>	.462	.122	1.746	39.548**	3.137	498.522
<b>Neither agree or disagree</b>	.394	.130	1.193	2.062	.647	6.565

# Conclusion

- Employees are found to be more secured financially in the UK than Hong Kong because of universal social security provision i.e., state pension.
- Unlike Hong Kong, state pension is positively associated with other kind of savings in the UK.
- About 16% employees reported that they are dependent on other family members' income in old age in both countries.
- Females are more likely to have prepared for later life than males.
- Singles are less likely to save money for later life than others.

- Higher education is associated with more savings for later life.
- Household income is found to be single most important determinants of financial preparedness in later life. The lower the income quintile the less likely to save for later life in both Hong Kong and the UK.
- In the UK, Trade Union membership is found to have a positive effect on retirement savings at least one financial security plans.
- Those who planned their early retirement age is found to have less likely to save. Similarly, those who are very much aware about pension/retirement income are more likely to save money in both countries.

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