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A comparative analysis of Australian and Hong Kong retirement systems

Christopher Strano¹ and Dale Pinto²

Abstract

In the developed world, there comes a point in a person's life when it is socially accepted that they should no longer be required to earn an income through personal exertion — generally quantitatively determined by their age.

The level of support an older person receives is often correlated with the economic stability of the jurisdiction in which they reside. This support can range from basic services through to modest level pensions and healthcare. All support is funded by government revenue (i.e. taxes). Such revenue is predominately derived through taxpayers and, most notably, the working population.

A large issue affecting countries globally is that of aging populations. Statistically, older persons are considered to be those over the age of 60. Aging populations are a direct result of increased mortality rates followed by reductions in fertility rates.³

The financial impact of aging populations is that a large network of people finds themselves being supported by a much smaller network. This places a greater burden on the younger population and risks a lower standard of living for older people.

To combat the economic and social risks associated with an aging population, many countries over the past decade have implemented significant pension reforms which have included increasing age requirements for pension benefits, changing the way in which entitlements are calculated and introducing compulsory savings.⁴

The World Bank's leading involvement in pension reform, globally, has identified that the main objectives of a pension system continues to be poverty alleviation and consumption smoothing — beneath the umbrella of social protection.⁵

This paper reviews each comparator country's retirement income system using the World Banks Pension Conceptual Framework. It then considers each country's system in terms such as adequacy, affordability, sustainability, equitability, predictability and robustness.⁶

Keywords: Retirement systems; retirement; comparative analysis of retirement systems

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³ UN, 2013, 3 [1].

⁴ OECD, 2013, 9.

⁵ Holzmann and Hinz, 2005, 1.

⁶ Ibid 55.

1. INTRODUCTION

The World Bank has played an integral part in worldwide pension systems over the past 30 years. The major focus initially was on social security support for older people, which became an issue predominately due to a global aging population. However, this issue was exacerbated by deficiencies in traditional government and employment-linked retirement plans, as well as changing work patterns resulting in a lack of job stability, and local and international labour migration. A weakening of communities and family-based arrangements also contributed.⁷

The World Bank's experience led them into research on what was quickly becoming an old age crisis by the mid-1990s; subsequently releasing a report, *Averting the Old Age Crisis*. Their agenda was a focus on the refinement of pension systems, by establishing key principles and concepts, to accommodate diverse populations and mitigate the financial risks associated with the older generation.⁸

The World Bank identified that the expected significant growth in individuals over age 60 around the world would put major strains on global healthcare and financial security. They noted that the economic affect was not restricted to older people, but extended to all age groups. While the growth in population and ensuing economic stresses was anticipated to be greater in developing countries, particularly Asia and specifically China, developed countries faced the same problems.⁹

What eventuated from the World Bank's research was the creation of a conceptual multi-pillar retirement system, due to deficiencies in a single pillar system. A single-pillar system such as the public pay-as-you-go defined benefit pensions had the inherent risk of tax evasion, system manipulation, and eventual high contribution rates due to aging populations, which rendered such a system as destined to fail. Other single pillars, like a mandatory publicly managed system lack transparency, rely too heavily on government investment decisions and inhibit growth by depriving access to these funds by the private sector. Another approach, although never relied on solely by any government in the past, involves private occupational or personal savings plans. Such plans do allow for the liberal investment of funds, yet incur longevity risk, the risk of poor individual investment decisions and discriminate against those with low lifetime earnings.¹⁰

To combat the inadequacies of a single-pillar system, the three-pillar system was born: a public pillar to alleviate old age poverty and funded through taxes, a secondary mandatory pillar, privately managed and defined, and finally a third pillar based on voluntary contributions for people wanting more income in retirement.

⁷ The World Bank, 2008, 1 [1].

⁸ Ibid, [2].

⁹ Ibid, Overview.

¹⁰ The World Bank, 1994, 14.

The World Bank's involvement in pension systems didn't stop there. In 2005, they released a report, *Old Age Income Support in the 21st Century: An International Perspective on Pension Systems and Reform*. Through involvement with policy makers and pension experts during implementation of pension reform, this 2005 report extended the three-pillar system to a five-pillar system. The addition of a zero, basic, pillar to deal more explicitly with the poverty objective and a non-financial fourth-pillar consisting of access to support and social programs, healthcare and housing. This inclusion of both a zero and a fourth pillar did not result from flaws in the three-pillar approach, but rather to further strengthen the overall pension framework.¹¹

Ultimately, the World Bank has made it clear that the five-pillar pension system should be utilised as a benchmark, not a blueprint. The experience of the World Bank and its intimate involvement in pension reform has identified widely varied circumstances across numerous jurisdictions around the world. It recognises many differing starting points, objectives and economic circumstances. For this reason, the five-pillar system has intentionally been created as a flexible benchmark and guide for pension reform, rather than a prescriptive model that would define or limit possible alternatives.¹²

When the World Bank's first report was released in the mid-90s, recommending a three-pillar pension system, Hong Kong's pension system already consisted of two of the three pillars: a social security scheme and a voluntary personal savings plan. Consideration was given to Hong Kong's population and savings habits and, seeing it as a good fit, they immediately began the process of implementation of the third pillar — a mandatory employment-related contribution system — The Mandatory Provident Fund system, which began operation in December 2000.¹³ Hong Kong's current retirement system now includes all but Pillar 1 of the World Bank's five-pillar retirement system.¹⁴

Due to the age pension being established in the early 1900s,¹⁵ the wide availability of private superannuation accounts in the 1970s,¹⁶ and the formal introduction of the superannuation guarantee in Australia in 1992, aimed at providing retirement benefits for all working Australians,¹⁷ Australia's retirement income system consisted of all three of the pillars prior to the release of the World Bank's 1995 report, *Averting the Old Age Crisis*, which included the framework of a three-pillar retirement system. Similar to Hong Kong, Australia's current retirement income system includes the same four of the five pillars that now make up the World Bank's strengthened framework.¹⁸

¹¹ Holzmann and Hinz, 2005, 3.

¹² Ibid, 53.

¹³ Chan, 2015, 3.

¹⁴ University of Hong Kong Department of Social Work and Social Administration, 2014, 36.

¹⁵ ABS, 2009

¹⁶ Australian Government, 2001, 65.

¹⁷ ATO, 2011.

¹⁸ Australian Government, 2008, 45.

2. COMPARING AUSTRALIA AND HONG KONG AGAINST THE WORLD BANK CONCEPTUAL FRAMEWORK

The first pillar, the non-contributory 'Zero Pillar', has the primary objective of alleviating poverty. It achieves a minimal level of protection for the elderly by providing basic income support. Non-contributory refers to the fact that eligibility for old age pension payments is not determined by any form of pre-retirement contributions made by the recipient. Instead, the Zero Pillar is structured to support residents with low lifetime incomes, including those with limited participation in the formal economy.¹⁹

Hong Kong has three non-contributory Zero Pillar social security income support payments to older residents. The first is the *Comprehensive Social Security Assistance (CSSA) Scheme*, a means tested payment of up to HK\$3,200 per month providing financial assistance to adults aged 60 and over. The second social security payment is the *old age living allowance* which is a payment of HK\$2,390 per month (HK\$28,680 p.a.) with more lenient eligibility criteria. The third is the *old age allowance*; a flat rate allowance, currently at HK\$1,235 per month (HK\$14,820 p.a.), to Hong Kong residents over age 70. The old age allowance is not means tested. A number of income support supplement payments also apply to certain circumstances. A person may only be in receipt of the old age living allowance or the old age allowance but not both. One must satisfy certain residency timeframes and means testing in order to be eligible for the payments.^{20, 21}

Australia's non-contributory Zero Pillar is the *age pension*. The age pension is a means tested income support payment for residents over the age of 65. This age requirement gradually increases for those born after 1 July 1952 until it plateaus at age 67 for people born after 1 January 1957. Residency requirements must also be met. The payment rate at time of writing is A\$867 per fortnight (A\$22,542 p.a.) for singles and A\$1,307 per fortnight (A\$33,982 p.a.) for couples (combined). There are a number of supplements, healthcare benefits and concession cards that an age pension recipient may also be eligible for.²²

Instead of the age pension, a person may be entitled to receive income support from the Department of Veteran Affairs (DVA). The DVA supports men and women who have served in the Defence Force. There are a range of income support payments for ex-service men and women; some are means tested and some are not, depending on the type of service, involvement in war-combat, and whether or not service resulted in a disability.²³

As of 1 January 2017, significant changes to means testing of old age pensions in Australia are being implemented, effectively increasing the amount of people eligible for the full age pension (and some DVA pensions) and reducing the number of people

¹⁹ World Bank, 2008, 2 [4].

²⁰ Social Welfare Department (HK), 2015a.

²¹ Social Welfare Department (HK), 2015b.

²² Department of Human Services, 2016.

²³ DVA, 2016.

eligible for the part-age pension (and some DVA pensions); specifically those with a greater level of assets.²⁴

The interesting difference between Australia and Hong Kong's Zero Pillar is that Hong Kong residents over the age of 70 are eligible for a non-means tested income support payment in the old age allowance, which was introduced in 1973. While there was a political movement to means test the old age allowance, due to financial stresses from an aging population, it was not well received by Hong Kong's older generation. The payment, commonly referred to as 'fruit money', is regarded by recipients as a token of appreciation for their lifelong contribution to society, rather than a form of support.²⁵

The only non-means tested income support payments for older Australians are those relating to war veterans suffering from total and permanent incapacity or war widows.²⁶

2.1 A mandatory 'First Pillar'

The World Bank's mandatory 'First Pillar' is designed to assist with retirement funding through an earnings-linked (traditionally) public mandatory contribution system with the intention of replacing a portion of pre-retirement income through a defined benefit arrangement. Specifically, it is targeted at the working population. One of the main economic risks addressed by the First Pillar is that of 'individual myopia' (i.e. the assumption that a population as a whole is incapable of adequately saving for their own retirement in a voluntary manner). The term myopia is defined by Oxford Dictionaries as '...lack of foresight or intellectual insight'

Forced retirement savings, over a long period of time, generating a formulated retirement income, reduces the stress on government-funded income support under the non-contributory Zero Pillar and removes the sole reliance on individuals (particularly those suffering from myopia) to self-fund their retirement needs. However, as contributions made in respect of retirement under the First Pillar are generally pay-as-you-go financed, they are susceptible to demographic and political risks.²⁷ For the First Pillar to be effective it requires mandatory participation to ensure a high coverage rate and presumably to minimise costs through economies of scale.²⁸

Hong Kong's retirement system does not currently include a mandatory First Pillar. In fact, it is the only pillar from the World Bank model not yet adopted by Hong Kong. Some have advocated for Hong Kong to incorporate a mandatory First Pillar into its retirement system, or even to see it replace or be funded through the mandatory Second Pillar. While authorities have dismissed the inclusion of a First Pillar to the detriment of a Second Pillar, they do acknowledge further discussions on inclusion of the First Pillar will be beneficial in strengthening Hong Kong's overall retirement funding framework.²⁹

²⁴ Australian Government, 2015a, 27.

²⁵ Sin, 2008.

²⁶ DVA, 2016.

²⁷ Holzmann and Hinz, 2005, 42 and 43.

²⁸ Chan, 2015, 16 [35].

²⁹ Ibid, 17 [38]

As with Hong Kong, Australia does not have an equivalent to the World Bank's mandatory First Pillar. It too has built its retirement system around the remaining four of the five pillars. Defined benefit plans funded through mandatory contributions are ingrained in Australia's retirement system; however, such plans are being phased out with a preference for individual retirement savings accounts. Irrespective of this, Australia's defined benefit plans are industry-sector specific rather than all-inclusive as intended by the First Pillar World Bank framework.³⁰

2.2 A mandatory 'Second Pillar'

A mandatory 'Second Pillar' is a defined contribution approach to retirement planning that provides the member with an individual retirement savings account. A typical member account affords a great degree of flexibility in so far as investment options, portability of savings between retirement accounts and various withdrawal options in the drawdown phase. However, such flexibility comes at a cost — quite literally. In contrast to defined benefit plans, defined contribution plans incur greater administration and investment management fees, are exposed to agency and longevity risk, and ultimately shift the overall risk from a defined benefit provider (e.g. government or employer) to the member themselves, by subjecting their savings to market volatility.³¹

The Second Pillar is said to complement the First Pillar well, as there is not a perfect correlation between wage growth and financial returns achieving a level of diversification within a pension system.³²

As with the mandatory First Pillar, the Second Pillar is also influenced by individual procrastination — saving for retirement being a low priority because it is too far in the future — ultimately resulting in inadequate retirement savings. While a specific rate of defined contributions under the Second Pillar can roughly translate into a retirement income, based on expected return and term of investment, it has not been designed to achieve specific income replacement goals.³³ However, if it must be measured, a widely held view is that retirement income adequacy is achieved if defined contributions accumulate sufficient capital to generate an income equivalent to around 70 percent of pre-retirement income over a 30-year period.³⁴

A formula driven defined benefit plan under a Second Pillar framework provides workers with an income for the remainder for their lives (in some cases reversionary to their spouse in the event of death). In simplistic terms, the level of retirement income is based on pre-retirement salary and years of service. Defined benefit plans allow an employee to focus on working, unconcerned with providing for retirement, knowing they will be in receipt of a guaranteed replacement income in retirement, which can supplement a Zero Pillar government old age pension to cover retirement

³⁰ John Burnett et al, 2014,,9 [2].

³¹ Holzmann and Hinz, 2005, 42 and 43.

³² Ibid, 43.

³³ Australian Government, 2009, 10 [8].

³⁴ Australian Government, 2013b, 23 [6].

expenses. Such plans afford maximum predictability, yet are said to be unsustainable and unaffordable for their sponsors.³⁵

At the other end of the spectrum, defined contribution plans are concerned with accumulating a capital investment amount intended on delivering an income stream throughout retirement. This method moves away from the retirement income approach towards a capital accumulation approach, whereby the member bears all the investment risk, pre- and post-retirement, in an area in which they are no doubt unskilled; then they are expected to manage the addition of longevity risk using the net present value theory.³⁶

Second Pillar defined contribution plans are becoming an increasingly integral part of overall retirement plans worldwide. For some countries, defined contribution plans are the main pillar. Therefore, the importance in the adequacy of these plans and benefits stemming from them should not be understated.³⁷

In Australia, as at February 2014, approximately 83 percent of retirement benefits, based on asset values, were held in defined contribution plans, with the remainder in defined benefit plans.³⁸ In Hong Kong, approximately 86 percent of retirement benefits were held in defined contribution plans as of 31 March 2014.^{39, 40}

Australia's Superannuation Guarantee (SG) System is the main component of Australia's defined contribution pension plan, requiring employers to contribute a percentage of an employee's salary to their superannuation account on a quarterly basis. The current rate is at 9.5 percent. This rate is progressively increasing from 9.0 percent to 12.0 percent between the 30 June 2013 and 1 July 2022.⁴¹ While initially intended to supplement the age pension, this increase in mandatory contributions is now transforming the perception of superannuation into a total retirement income solution.⁴²

Hong Kong's defined contribution pension plan is built around the Mandatory Provident Fund (MPF) System. Generally, an employee and their employer are both obligated to each contribute five percent of an employee's salary into the MPF scheme.⁴³ Unlike Australia, Hong Kong is not so ambitious with the expectations of their defined contribution pension plan. Built on Pillar Two under the World Bank's five-pillar retirement protection approach, Hong Kong has made it clear that there is no immediate objective for the MPF to be a self-funding retirement solution.⁴⁴ Hong Kong views the MPF as a means of supplementing other sources of retirement income

³⁵ Merton, 2012, 6.

³⁶ Ibid, 11.

³⁷ OECD, 2012, 1.

³⁸ APRA, 2013, 8.

³⁹ Hong Kong Investment Funds Association, 2014a.

⁴⁰ Hong Kong Investment Funds Association, 2014b.

⁴¹ ATO, 2014.

⁴² Australian Government, 2013b, 21 [4].

⁴³ Hong Kong Government, 2014, 1 [6].

⁴⁴ MPFA, 2014, 1 [1].

and was specifically established as Pillar Two under the World Bank's five-pillar retirement protection approach.⁴⁵

One noticeable difference between Australia and Hong Kong's mandatory contribution system is that non-employees (i.e. self-employed persons) in Australia are not obligated to make mandatory contributions into superannuation on their own behalf. In fact, they're not even required to have a retirement account.⁴⁶ In Hong Kong, self-employed persons must contribute five percent of their own income into their retirement plan.⁴⁷

2.3 A voluntary 'Third Pillar'

A voluntary 'Third Pillar' can be loosely defined and broad in nature. It generally consists of personal savings and non-mandatory contributions to retirement plans. Such voluntary savings used for consumption through retirement are derived from sources that are not formally defined as pensions.⁴⁸ Similar to the Second Pillar, voluntary savings are generally susceptible to financial and agency risks because of private asset management.⁴⁹

Aside from the consequential retirement funding afforded through the ordinary accumulation of wealth or inter-family transfer of assets, the overall success of a voluntary Third Pillar, in a formal retirement funding sense, generally relies on tax credits and matching contributions. However, structure and limits need to be considered so as not to encourage the wealthier population in capitalising on unintended tax incentives, whereby *tax planning* can be disguised as *retirement planning*.⁵⁰ In saying this, voluntary contributions provide an avenue for those on higher incomes to build retirement wealth, often tax effectively, which can greatly assist with achieving commensurate replacement rates.⁵¹

Contributions in excess of the mandatory provisions are permitted to be made into Hong Kong's Mandatory Provident Fund (MPF) system. These voluntary contributions can either be made by the member or by their employer on behalf of the member. Voluntary contributions made by employees or self-employed into the MPF are unable to be claimed as a tax deduction. Voluntary contributions made by employers in respect of employees are deductible up to 15 percent of the employee's total salary package. Mandatory contributions are included in this 15 percent cap.⁵² Conditions surrounding the access of voluntary contributions under the MPF scheme are not determined by law, but rather by each specific scheme.⁵³

In Australia, a formal voluntary Third Pillar predominately consists of private savings accumulated through voluntary contributions into a compliant superannuation fund.

⁴⁵ Hong Kong Government, 2014, 1 [4].

⁴⁶ ATO, 2015c.

⁴⁷ Hong Kong Government, 2014, 1 [6].

⁴⁸ Holzmann and Hinz, 2005, 83 [1].

⁴⁹ Ibid, 43 [1].

⁵⁰ Ibid, 14 [1].

⁵¹ Australian Government, 2009, 13 [4–5].

⁵² Hong Kong Government, 2014, 2 [1].

⁵³ MPFA, 2015.

Voluntary contributions can be concessional (tax deductible) or non-concessional (post-tax). Voluntary contributions are limited, with each limit determined by the member's age and type of contribution. Levels of income or wealth of an individual are irrelevant in determining contributions limits.⁵⁴ Lower income earners are encouraged to voluntarily contribute to superannuation, with post-tax savings, in order to receive a co-contribution from the government. Lower income earners can receive a co-contribution of 50 percent up to A\$500 on their contribution.⁵⁵ Despite not being mandated, voluntary superannuation contributions are also preserved until a condition of release is met (e.g. permanent retirement after reaching a preservation age (currently 56) or attaining age 65).⁵⁶

The voluntary Third Pillar contributes towards the adequacy of a retirement system by increasing replacement rates and improves affordability by encouraging preparedness and alleviating the financial pressure on society's capacity to fund the older population.

2.4 A non-financial 'Fourth Pillar'

The non-financial 'Fourth Pillar' is broad and discretionary in nature and refers to assisted pension funding in the form of family and social support programs, healthcare and housing, as well as home ownership and home-equity available through a reverse mortgage.⁵⁷

Social support and healthcare services can significantly reduce the living expenses of the older generation, thus reducing the stresses on achieving higher effective replacement income rates. Unencumbered home ownership also eliminates the necessity and major expense of shelter, while simultaneously providing access to equity via a reverse mortgage facility whereby repayments are simply capitalised and do not affect the day-to-day cash flow of a retiree.

The Australian Government provides a number of social support programs to older Australians. This ranges from aged care assistance, retirement advice, medical, pharmaceutical and transport subsidies and concessions, plus dozens of other programs designed to guide older people through their 'latter' years.⁵⁸

Home ownership, including occupied private dwellings either owned outright or owned with a mortgage by their occupants, account for 70 percent of dwellings in Australia — a number that has been stable since the early 1970s.⁵⁹ Home ownership plays an important role in maintaining retirement living standards in Australia and can largely explain the rate of age pension being a mere 25 percent of average weekly earnings.⁶⁰

⁵⁴ ATO, 2015d.

⁵⁵ ATO, i2015b.

⁵⁶ ATO, 2015a.

⁵⁷ Holzmann and Hinz, 2005, 3 [1].

⁵⁸ Australian Government, 2016.

⁵⁹ Pink, 2012.

⁶⁰ Yates and Bradbury, 2010, 198 [4].

Hong Kong also delivers social services and benefits to their elderly, including community care and support services, residential care services, concessions and discounts, as well as other social services.⁶¹ Permanent home ownership in Hong Kong sits at 53 percent, a rate that has also been reasonably static over the past decade.⁶² The Hong Kong Government views the Fourth Pillar as of equal importance to each other pillar, noting that government spending in the 2014–15 financial year towards the Fourth Pillar exceeded that of the spending on the Zero Pillar by 15 percent. Further, aside from public services and support, Hong Kong's Reverse Mortgage Programme, aimed at offering reverse mortgage loans to people aged 55 or above, continues to grow since its launch in 2011.⁶³

3. PRIMARY EVALUATION CRITERIA

3.1 Scope

In applying the primary evaluation criteria against the Australian and Hong Kong retirement systems, the mandatory First Pillar has been excluded from this paper's analysis and comparison, as it does not form part of Australia nor Hong Kong's current retirement system. In addition, analysis and comparison of the non-financial Fourth Pillar does not form part of the scope of this section due to its broad and discretionary nature. Attempting to address the Fourth Pillar succinctly and within the constraints of this paper would not allow for any meaningful assessment (when compared to the assessment of the remaining pillars) due to it being so diverse.

3.2 Adequacy: Australia and Hong Kong

An adequate system is one that provides benefits sufficient to prevent old-age poverty (as a country-specific absolute level) to the full breadth of the population in addition to providing a reliable means to smooth lifetime consumption for the vast majority of the population

— World Bank Pension Conceptual Framework⁶⁴

Despite having one of the leading retirement systems worldwide, it is common belief that many Australians will not have sufficient savings to fund their retirement. While this comes as no surprise when assessing the population *currently* transitioning to retirement, the belief also extends to include retirees who will have contributed to superannuation for their whole working life.⁶⁵

The age pension is the dominant contributor to alleviating old age poverty in Australia. In fact, research concludes that approximately 96 percent of single people and 88 percent of couples will rely on the age pension to assist in covering retirement

⁶¹ Hong Kong Government, 2015.

⁶² Hong Kong Housing Authority, 2015, 1.

⁶³ Hong Kong Government (Commission on Poverty), 2014.

⁶⁴ World Bank, 2008.

⁶⁵ Burnett et al, 2013, 2 [1].

expenses at some stage in their lives. Further, the age pension will cover more than two-thirds of retirement consumption for singles and one-third for couples.⁶⁶

The age pension presently achieves what it is designed to do — preventing old age poverty in Australia across the full breadth of the population. By continuing to link eligibility age to life expectancy and applying suitable means testing, the age pension should remain affordable and sustainable in supporting those who rely on it most.⁶⁷

Such a heavy reliance by older Australians on the age pension, as described in the figures above, suggests that, while poverty is being alleviated, the overall retirement system is not providing an adequate means for the vast majority of the population to smooth lifetime consumption.

In Hong Kong, the recent 2013 implementation of the old age living allowance has considerably helped to further alleviate old age poverty and extend adequacy across Hong Kong's population. Specifically, the poverty rate of people over 65 years fell from 33.2 percent to 23.0 percent. A study, conducted by Professor Chou Kee-lee (Head of the Department of Asian and Policy Studies at The Hong Kong Institute of Education), found that a 'universal' Zero Pillar used to replace the current old age allowance and old age living allowance schemes could further reduce this poverty rate to 13.0 percent. However, this study concluded that this would come at a significant financial cost to the government.⁶⁸

Australia's mandatory Second Pillar, the SG, addresses consumption smoothing via compulsory contributions. Such contributions are preserved until retirement and are designed to improve retirement adequacy for the working population. Ultimately, a fully mature SG system implemented throughout an individual's complete working-life is expected to eliminate the need for the age pension and replace it with pre-retirement earnings to maintain the same standard of living.⁶⁹ Unfortunately there remains a significant distortion in superannuation balance between males and females, reflecting wage gaps and differing working patterns.⁷⁰ The SG system also excludes self-employed persons. Given that more than 50 percent of the population are women⁷¹ and 11 percent are self-employed,⁷² other forced savings measures need to be adopted to increase retirement income adequacy and smooth consumption for the majority of the population.

Similar to Australia, Hong Kong's immature mandatory Second Pillar, the MPF, is unlikely to provide adequate resources to fully support old age any time soon. However, both Australian and Hong Kong defined contribution plans provide people with a reliable means to smooth lifestyle consumption — albeit one that relies on voluntary, non-mandated contributions, to achieve adequacy.

⁶⁶ Ibid, [4].

⁶⁷ National Commission of Audit, 2014, 86.

⁶⁸ Hong Kong Institute of Education, 2014, 1.

⁶⁹ Borowski, 2013, 750 [2].

⁷⁰ Ibid, 752.

⁷¹ Pink, 2012, 240 [1].

⁷² Ibid, 293.

While government support and retirement savings policy is imperative to any successful retirement model, an individual's ability and willingness to save is a major contributor towards achieving retirement funding adequacy. One argument is that, unlike Western cultures such as Australia, individual procrastination — the disconnect between now and planning for the future — is less prevalent in Hong Kong. It is hypothesised that this 'ability to save' is achieved through language, as the Chinese grammatically apply the present and future equally; thus providing a psychological advantage towards savings due to the future seeming closer.⁷³ Additionally, it is argued that the Chinese cultural factor of Confucianism, valuing thrift, self-discipline, moderation and aversion to extravagance translates into a greater savings capacity and comparatively lower expenditure objectives, resulting in higher retirement adequacy levels.⁷⁴

Despite this apparent philosophical approach to life and finances, Hong Kong ranks an uninspiring 45th of the 49 countries measured in the Allianz International Retirement Income Adequacy (RIA) Indicator — a benchmark modelled on a multi-pillar retirement system, taking into account various sources of income, as well as factors influencing expenditure needs.⁷⁵ Another notable finding was that, while *China* ranked highly in 'non-pension wealth', *Hong Kong* did not appear to fully embrace the supposed Chinese culture of Confucianism, ranking third last.

The main criticism affecting adequacy in both Hong Kong and Australia's retirement system is in connection with the drawdown phase of the mandatory Second Pillar, due to the availability of lump sum payments of benefits available to members upon attaining a certain age as well as the lack restrictions on the level of pension income that can be withdrawn throughout retirement. These are not characteristics that are favourable when assessing the adequacy of a retirement system.

3.3 Affordability: Australia and Hong Kong

An affordable system is one that is within the financing capacity of individuals and the society and does not unduly displace other social or economic imperatives or have untenable fiscal consequences

— World Bank Pension Conceptual Framework⁷⁶

In 1993, Australia's three pillar retirement system was endorsed by the World Bank as the world's best practice for the provision of retirement income.⁷⁷ Since then it has remained a high benchmark for global retirement systems, as high individual savings rates and broad coverage has been achieved cost-effectively.⁷⁸

The Zero Pillar age pension in Australia is intended only to be used as a safety net and to provide financial security to older Australian's who are unable to support themselves in retirement. Older Australians with sufficient financial resources to fund

⁷³ Chen, 2013.

⁷⁴ Chou et al, 2014, 1572 [2].

⁷⁵ Allianz SE, 2015, 3, 9 and 15.

⁷⁶ World Bank, 2008.

⁷⁷ Nielson, 2010.

⁷⁸ Agnew, 2013, 1.

their own retirement should not be entitled to receive such support. Government expenditure on the age pension is growing at a rate of seven percent per annum. Based on current eligibility criteria, this rate would be expected to continue increasing, predominately due to the two main factors of increased life expectancies and an aging population.⁷⁹ These two factors are unavoidable and moreover, are likely to trend in a manner that will reduce the affordability of age pension funding in the foreseeable future. However, narrowing the age pension eligibility criteria can reduce such funding pressures.

In a February 2014 report to the Australian Government, the National Commission of Audit stated that ‘...changes are needed to ensure that the cost of the age pension remains sustainable and affordable and well targeted to those in genuine need.’⁸⁰ This suggests that there are inequities in the age pension eligibility criteria, which extends unaffordable income support payments to individuals who could otherwise support themselves.

The Australian Government has since responded to these recommendations in the 2015 Budget, by declaring that, as of January 2017, the asset-tested free area will increase, providing an additional 170,000 pensioners with access to the full age pension. In addition to this, they announced a noticeable reduction to the upper threshold, eliminating payments to older Australians who are reasonably able to self-fund their retirement.⁸¹

One factor that increases the affordability of retirement protection in Hong Kong is that some residents choose not to apply for social income support, despite being eligible, due to their adherence to traditional beliefs of ‘self reliance’ and not wanting to be a social burden. Such individuals state that they would only apply for social security if they could not take care of themselves.⁸² However, this ‘saving’ is arguably eroded by non-means tested old age allowance support payments to pensioners over the age of 70, which are made irrelevant of necessity.⁸³ Overall, it is estimated that social security expenditure for the Hong Kong elderly will increase to HK\$59.14 billion by 2041, compared to HK\$21.72 billion in 2013, doubling the projected percentage of nominal gross domestic product (GDP).⁸⁴

The greatest criticism of Hong Kong’s MPF is that it is an expensive means of providing for retirement with high administration and management fees. Research has indicated that Hong Kong’s MPF system has the highest fees and administration costs, when expressed as a percentage of assets under management, reviewed against other comparable international pension systems, including Australia. The main reasons behind these larger costs were inefficient application and transaction processes, lower economies of scale and limited competition. On a positive, the MPF system remains young and criticism is to be expected. If efficiencies, membership and funds under

⁷⁹ National Commission of Audit, 2014, 80 [6].

⁸⁰ Ibid.

⁸¹ Australian Government, 2015a, 27.

⁸² Oxfam (Hong Kong), 2010, 6.

⁸³ Social Welfare Department (HK), 2015b.

⁸⁴ The University of Hong Kong Department of Social Work and Social Administration, 2014, 15–17.

management increase over time, so too will competition; consequently reducing costs. However, there remains the real risk that costs will increase if no action is taken.⁸⁵

Australia has had the advantage over Hong Kong in that its SG system has been in place for almost a decade longer. Over this time it has developed efficiencies and competition which have been the drivers of a reduction in fees. Due to the passive approach that many Australians still have to superannuation, the government developed the concept of a default 'MySuper' product. This product is required to feature a standardised, transparent fee structure and reporting, as well as basic lifecycle investment options, ensuring the savings of passive-decision makers are invested appropriately and cost-effectively. MySuper products became available as of July 2013 and, by 2017, all superannuation trustees are required to transfer 'default balances' into a MySuper product.⁸⁶ MySuper product fees now rival international retirement plans.⁸⁷

3.4 Sustainability: Australia and Hong Kong

A sustainable system is one that is financially sound and can be maintained over a foreseeable horizon under a broad set of reasonable assumptions

— World Bank Pension Conceptual Framework⁸⁸

Assistance to older Australians is Australia's largest single welfare cost, accounting for 39 percent of total social security and 13 percent of total budget spending. The cost of this support to the aged, while not expected to decrease in the near future, is expected to plateau.⁸⁹ Maintaining this proportion of spending towards the elderly should be viewed as an improvement towards sustainability when considering that those aged 65 and over accounted for 14 percent of Australia's population in 2011 and will increase to 20 percent of the population by 2030.⁹⁰ The anticipated curbing of budget spending towards this sector can be largely attributed to the proposed changes (reversion) of means testing, set to apply from 1 January 2017.

Australia's SG system focuses on compulsory consumption smoothing, addressing the majority of the population's unwillingness to voluntarily and adequately fund their own retirement. A fully mature SG system is projected to assist greatly in sustaining Australia's retirement system by achieving post-tax replacement rates in the vicinity of pre-retirement income. Replacement rates, expressed as a percentage, are in fact more favourable for lower income earners, potentially negating the need for the full-time, consistently-employed, working population to rely on social support.

The current progressive increase in the SG rate from nine percent to 12 percent will further increase such retirement sustainability; arguably at the detriment of low and

⁸⁵ Ernst & Young (HK), 2012, 5–6.

⁸⁶ Agnew, 2013, 3.

⁸⁷ Deloitte, 2014, 15–16.

⁸⁸ World Bank, 2008.

⁸⁹ Spraggon and Elvery, 2014.

⁹⁰ Pink, 2012, 242.

middle income earners' capacity to maintain current standards of living due to lower pre-retirement incomes.⁹¹

Concessional tax treatment of retirement savings, and voluntary concessional (pre-tax) and non-concessional (post-tax) contributions, which form part of Australia's Second Pillar, are often debated and regularly amended. Specifically, research suggests that the majority of the A\$31.8 billion (financial year 2012–13) in superannuation tax concessions benefited high-income earners and those with substantial assets. This figure is only mere A\$9.2 billion less than the A\$41 billion direct income support payments for seniors. Further, it is argued that restricting current concessions, resulting in wealthier individuals accumulating assets outside of the superannuation environment, would not compromise the effectiveness of the retirement system. This could lead one to presume that the current tax concession framework is somewhat politically motivated.⁹²

However, analysing these tax concessions against sustainability of the retirement system is limiting the scope. Superannuation in Australia is valued at A\$1.5 trillion and is a major part of the financial services and insurance sectors. These sectors employ around 3.5 percent of working Australians and currently contribute 1.5 percent of GDP. Both of these rates are projected to grow substantially over the next few decades. Domestic retirement savings capital, therefore, together with consistent voluntary contributions is essential to a sustainable and robust economy as a whole.⁹³

Topical discussion on superannuation sustainability

The sustainability of Australia's superannuation system is presently being challenged by the Opposition Government. The Australian Labor Party (ALP) has the view that the current system favours the wealthy because the large majority of superannuation tax concessions are benefiting the top 20 percent of income earners.⁹⁴ Superannuation tax concessions account for a considerable portion of Australia's annual tax expenditures. The Tax Expenditures Statement (2014) states that 'A tax expenditure arises where the actual tax treatment of an activity or class of taxpayer differs from the benchmark tax treatment' This is usually achieved in the form of tax exemptions, deductions, offsets, concessional tax rates, and tax deferral.⁹⁵ The combined tax expenditure of superannuation contributions and superannuation earnings contributes to 24 percent of total tax expenditure.⁹⁶ This is considerable; yet it needs to be considered that tax incentives are the sole reason for the existence of the superannuation system, which is instrumental to alleviating the costs of social security to older Australians.⁹⁷

The ALP argue that limiting the tax exempt status of earnings in superannuation drawdown phase and lowering the Higher Income Superannuation Charge will reduce the impact on Australia's tax expenditure, effectively generating greater revenue, and

⁹¹ Australian Government, 2009, 11 [5].

⁹² Australian Government, 2013a, 4–8.

⁹³ Ibid, 4–8.

⁹⁴ ALP, 2016,

⁹⁵ Australian Government, 2015b, 3.

⁹⁶ Ibid, 7.

⁹⁷ Pinto, 2013, 583 [2].

will create a fairer, more equitable superannuation system. The ALP believes the affordability gained through these measures will improve the sustainability of Australia's retirement system.⁹⁸

Australia's superannuation system has had significant amendments over the past two decades; both minor and major.⁹⁹ The inevitable consequence of change is loss of confidence in the superannuation system. On a micro level, the proposed changes may generate more revenue over the short- to medium-term and achieve a more equitable outcome. However, lack of confidence in the system, through elimination of tax concessions, risks the long-term sustainability of superannuation on a macro level, irrelevant of equitable values, as the wider population already increasingly perceive superannuation as unpredictable.¹⁰⁰

Sustainability of a retirement system in Hong Kong is under increasing pressure; much more so than most countries around the world. In 2010 Hong Kong ranked outside the top 40 countries on the old age dependency ratio, yet is expected to rank seventh by 2030. A significant drop in fertility rates and improved life expectancy are responsible. Specifically, the fertility rates (children born to a woman during her lifetime) in Hong Kong between 1980 and 2010 have plummeted from 2.3 to 1.0,¹⁰¹ while life expectancy for a 65 year old is 18.7 years (83.7 years) — the highest ranking in the world.¹⁰²

The number of recipients of social security in Hong Kong has remained relatively stable over the past few years, despite an aging population. It has been suggested that this could be attributed to the implementation of the MPF. The concern is that this could be creating unsustainable temporary relief of old age assistance, as the MPF savings of lower income earners would be exhausted within the first few years of retirement, at which stage most would revert to social security benefits.¹⁰³

The MPF, formally introduced into Hong Kong in December 2000, is an integral component of their overall retirement system. It has been designed to complement the other retirement pillars in achieving adequacy. Still in its infancy, authorities are confident that the well-designed system in conjunction with sound investment options will continue to enhance the sustainability of Hong Kong's overall retirement system.¹⁰⁴

3.5 Equitability: Australia and Hong Kong

An equitable system provides income redistribution from the lifetime rich to lifetime poor consistent with societal preferences while not taxing workers or retirees external to the system; and an equitable defined-benefit system

⁹⁸ ALP, 2016.

⁹⁹ Nielson, 2010.

¹⁰⁰ Anderson, 2013, [8].

¹⁰¹ UN, 2015, 38.

¹⁰² Ibid, 44.

¹⁰³ The University of Hong Kong Department of Social Work and Social Administration, 2014, 3.

¹⁰⁴ MPFA, 2014, 1 [1].

provides the same benefit for service across income groups and cohorts subject income redistribution parameters which may apply

— World Bank Pension Conceptual Framework¹⁰⁵

Both the Australian and Hong Kong non-contributory Zero Pillars are based on the premise of alleviating poverty. This pillar of the retirement system epitomises equity in a broad economic sense by transferring wealth from the rich, via taxes, to the poor, as income support payments. Both countries do this using a means-tested assessment in order to determine the beneficiaries. However, Australia and Hong Kong each have one notable inconsistency within their respective systems, between the objectives that the social support system is trying to achieve and the actual policy currently in place. These inconsistencies compromise the equitability of each system.

The notable inequity in Australia's social security eligibility criteria is the exemption of the principal residence from means testing. In determining eligibility for the age pension, the assessment allows for high levels of wealth to be sheltered in the form of the family home. For example, under the current rules a single person who owns a A\$400,000 house and has A\$800,000 in shares (A\$1.2 million in total assets) would not be eligible for any age pension payments, while a similar person with a principal residence worth A\$2 million and A\$200,000 in shares (A\$2.2 million in total assets) would be able to claim the age pension at the full rate.¹⁰⁶

In Hong Kong, the old age allowance is a non-means tested payment to residents aged 70 and above at a current rate of HK\$1,235 per month. This is simultaneously insufficient to provide any degree of retirement adequacy and is a detractor to the success of Hong Kong's retirement system. Colloquially referred to as 'fruit money', the old age allowance defies equitability, despite being part of Hong Kong's non-contributory Zero Pillar framework, ordinarily designed to alleviate poverty. The lack of means testing removes any form of redistribution from the lifetime-rich to the lifetime-poor on this portion of social support. Further, there is considerable discussion surrounding the consolidation of Hong Kong's existing tiers of social support into one universal, non-means tested flat monthly payment to all residents, irrelevant of pre-retirement earnings, years of service or personal savings. Hong Kong residents are divided at the prospect of a universal system, with those opposed to it concerned about the significant financial burden on society, believing a more equitable outcome is potentially achievable by directing social support resources to the less fortunate rather than society as a whole.¹⁰⁷ Introducing means testing on all forms of social support income would increase equitability and no doubt contribute towards the sustainability and affordability of the retirement system.

The SG system in Australia and the MPF in Hong Kong, both employment-linked defined contribution plans, effectively reduce salaries and wages to allow for compulsory contributions to a retirement plan. Both of these plans are inherently inequitable approaches to retirement savings, grossly favouring males and higher income earners, which can often be one in the same. The bias towards males and higher income earners results from more consistent work patterns and greater capacity to forego pre-retirement income in exchange for increased retirement benefits.

¹⁰⁵ World Bank, 2008.

¹⁰⁶ National Commission of Audit, 2014, 85 [4].

¹⁰⁷ The University of Hong Kong Department of Social Work and Social Administration, 2014, 7–9.

Women, in particular those who leave the workforce at a young age due to family commitments, become completely excluded from the compulsory Third Pillar of both countries' retirement systems. Any savings that are accumulated prior to leaving the workforce are too meagre to provide any meaningful contribution towards retirement adequacy and achieving replacement rates. While women can be protected against poverty through social support or an earning spouse, the current system does not make provision for the women who would like more in retirement, or to at least achieve modest replacement rates equivalent to their male counterparts, irrelevant of their previous employment earnings. Because of this, achieving adequacy can be especially difficult for women entering retirement as single persons.

A noticeable inequity that is ingrained in Australia's voluntary Third Pillar and to a certain degree, mandatory Second Pillar is that of tax concessions relating to superannuation contributions and earnings on superannuation benefits.

Firstly, concessional superannuation contributions are effectively taxed at 15 percent upon entry (contributions tax).¹⁰⁸ This is a flat rate and allows an individual to reduce their marginal tax rate from up to 47 percent¹⁰⁹ down to 15 percent through salary sacrifice or personal deductible contributions, significantly reducing tax payable. Such a saving favours higher income earners over low-middle income earners, as the reduction in tax, both in dollar terms and percent is greater. Further, higher income earners arguably have greater capacity to make additional contributions, increasing their advantage.¹¹⁰ It should be noted that recent progressive decreases to contribution level limits has negated the once significant tax advantages, as has the introduction of an additional 15 percent contributions tax (totalling 30%) for income earners above A\$300,000 per annum.¹¹¹

Secondly, earnings on investments within superannuation are capped at 15 percent, reducing to zero percent once an income stream commences. Again, this favours wealthier individuals, as transferring their wealth into superannuation translates into less tax payable than if those same earnings were retained in their individual names and taxed at their marginal tax rates, which are higher than the tax rates for low-middle income earners.

Considering superannuation has been developed as a retirement funding mechanism aimed at consumption smoothing ultimately intended to minimise social support, the motive of current Australian superannuation tax concessions, which are amongst the highest in the world, remains inequitable.¹¹² The retirement system in Australia would likely not be adversely affected if contribution limits were further reduced, forcing the wealthy to partake in consumption smoothing outside of superannuation.¹¹³ This is in contrast to Hong Kong's MPF whereby the maximum deductible contributions are at a modest HK\$18,000 per year — 60 percent of Australian limits. In comparison to Australia's tax concessions, Hong Kong's concessions appear more in line with the

¹⁰⁸ ATO, 2015e.

¹⁰⁹ *Income Tax Rates Act (ITRA) 1986*, Schedule 7.

¹¹⁰ Hanegbi, 2010, 437.

¹¹¹ *Income Tax Assessment Act (ITAA) 1997*, section 293.

¹¹² Hanegbi, 2010, 432–434.

¹¹³ Hanegbi, 2010, 437.

objectives of equitable consumption smoothing rather than a bias towards tax planning for higher income earners.¹¹⁴

3.6 Predictability: Australia and Hong Kong

A predictable system provides benefit that (i) are specified by law and not subject to the discretion of policymakers or administrators, (ii) includes indexation provisions designed to insulate the individual from inflation, wage and interest adjustments before and after retirement, and (iii) as much as possible insulates the retiree from longevity risks

— World Bank Pension Conceptual Framework¹¹⁵

The necessity of a multi-pillar retirement system creates diversity and flexibility which in turn reduces predictability.

Australia's non-contributory Zero Pillar age pension assessment and level of payments has remained reasonably consistent over recent decades.¹¹⁶ In 1997, the Howard Government enacted the *Social Security and Veterans' Affairs Legislation Amendment (Male Total Average Weekly Earnings Benchmark) Act 1997* which would ensure the minimum full rate of the age pension would be equal to at least 25 percent of male total average weekly earnings (MTAWE).¹¹⁷ Legislated consistency such as this creates a predictable outcome for individuals in and nearing retirement. It allows for future planning of finances and generates confidence and certainty in the system.

However, a change to the eligibility assessment criteria, in the form of asset thresholds, in September 2007 has affected a number of people. From that date, around 300,000 additional people became eligible for social security income, who hadn't previously been entitled, resulting from more generous thresholds.¹¹⁸ These generous thresholds still exist today, yet are essentially being reverted to their previous form as of 1 January 2017. This reversion creates more sustainable, equitable and affordable social support for Australia's overall retirement system;¹¹⁹ however, it also affects the retirement planning of the 300,000 people who presumably incorporated the additional income into their long-term planning. Additionally, it risks community confidence in future stability and, subsequently, system predictability.

Unlike Australia's predictable social security system, Hong Kong's is in the midst of uncertainty, both from an eligibility and legacy perspective. Its existing tiers of income support payments, debate on means testing, and potential consolidation to a universal payment greatly affects its predictability. The introduction of the old age living allowance in 2013 suggests Hong Kong is recalibrating its social security system and can be excused for not providing high levels of predictability during this transition phase. Taking a stance against the non-means tested old age allowance, a

¹¹⁴ Inland Revenue Department, 2016.

¹¹⁵ World Bank, 2008.

¹¹⁶ Nielson, 2010.

¹¹⁷ Commonwealth Treasury of Australia, above n 14, 73.

¹¹⁸ Nielson, 2010.

¹¹⁹ Australian Government, 2015a, 27.

token payment in respect for the elderly, will be difficult to overcome politically, but will improve Hong Kong's social security system.¹²⁰

Australia's mandatory Third Pillar does not boast the stability and predictability achieved in its First Pillar. Since the introduction of the SG system in 1992, there have been amendments to this component of the retirement system almost every year, as well as significant reforms to regulation, comprehensive amendments legislation and sweeping changes to superannuation taxation.¹²¹

Hong Kong has the highest life expectancy in the world at 84 and Australia also ranks highly at 82.¹²² It is estimated, with strong conviction, that the formal statistical life expectancy data generally reported understates more realistic life expectancies by 5–7 years after allowing for mortality improvements on a cohort basis.¹²³ With high life expectancies comes the higher longevity risks associated with retirement systems. The major shift from defined benefit retirement plans to defined contribution plans, as well as the lack of interest in annuitised products, reflects the preference in flexibility and liberal use of retirement savings in both countries. These defined contribution plans rely on a capital accumulation model with a lump sum benefit, providing ultimate discretion to the member as to how retirement savings are utilised with little consideration given to longevity risks.

Increasing longevity risks and somewhat undermining the intent of a retirement system is the reducing age at which benefits are accessible. Even with increasing life expectancies and an aging population, Australian superannuation fund members are able to access full benefits as early as the age of 56 (this was 55 years before 1 July 2015) and 60 years in Hong Kong. It could be argued that such early access to benefits encourages people to cease work earlier, heightening longevity risks and jeopardising the sustainability of the respective retirement systems.¹²⁴

Yet, longevity risk is not limited to retirees; the economic community bears the risk of needing to fund social security pensions via taxes to compensate for misuse or ineffective planning of retirement benefits.¹²⁵ An absurd reality of both the Australian and Hong Kong defined contribution plan — the main contributor to both retirement systems — is that a member can spend 30 working years accumulating wealth through mandatory and voluntary contributions, withdraw the total balance upon retirement, purchase a house well above their means and be in receipt of full social security benefits funded by the community.¹²⁶ Furthermore, the same person can apply a reverse mortgage against their new home for additional income to supplement social security benefits without the income being assessed. Such a strategy can continue indefinitely, with no reduction in asset base, if the reverse mortgage drawdown, plus capitalised interest, is equal to or less than the growth in the property price over the course of retirement.

¹²⁰ The University of Hong Kong Department of Social Work and Social Administration, 2014, 3–4.

¹²¹ Nielson, 2010.

¹²² World Bank, 2014.

¹²³ Actuaries Institute, 2012, 5.

¹²⁴ *Ibid* 8–9.

¹²⁵ *Ibid* 8.

¹²⁶ *Ibid* 12.

3.7 Robustness: Australia and Hong Kong

A robust system is one that has the capacity to withstand major shocks, including those coming from economic, demographic and political volatility.

— World Bank Pension Conceptual Framework¹²⁷

The single largest risk to most Second Pillar defined contribution plans, such as Australia's SG system and Hong Kong's MPF, is major economic shock, such as that experienced during the global financial crisis (GFC). One of the biggest detractors in retirement savings during this period came from investment in direct equities. Equities can be a favourable investment due to high expected long-term returns and passive nature; however, they are also subject to high levels of short term volatility and risk. As a matter of concern, Hong Kong ranks third highest amongst non-OECD countries for the level of pension funds allocated to equities at 57 percent¹²⁸ and, of OECD countries, Australia sits second with 46 percent behind the United States.¹²⁹ At retirement, Second and Third Pillar savings will usually be a person's largest investment asset in Australia and Hong Kong. This 'asset', the day-to-day investment decisions and all the risk associated with retirement funding reside with the member — an unskilled, under-educated investor. The detrimental effect of inadequate risk management and poor investment decisions by an individual is not merely confined to their own retirement outcome, but generally leads to some form of social support, putting a further strain on outnumbered taxpayers and ultimately reducing the robustness of a retirement system.

The continued transition between jobs and workplaces in the modern day is a hindrance on Australia's defined contribution system. Continuity of contributions into a defined contribution plan is important in developing a robust Second Pillar, but so too is the timing and management of contributions. Contributions made in the early stages of an individual's career have the advantage of the 'investment timeframe', which can smooth investment returns regardless of major shocks to the markets and economy and have a significant influence on the final benefit. As of 2013, Australia had close to three superannuation accounts for each employee, with six million of these accounts deemed 'lost and unclaimed'. Fortunately Australia has implemented an automatic consolidation process for inactive accounts into a standardised platform and notification to the member. This reuniting of unclaimed superannuation is a proactive initiative to improve the robustness of the system so that members can employ consolidated and focused investment strategies designed to achieve adequacy in retirement.¹³⁰

The majority of Hong Kong's MPF members, as with Australia's, do not participate actively in their savings and investment decisions. Vast investment choice and inadequate financial knowledge having proven to be intimidating factors. Subsequently, the Hong Kong Government and the MFPA have concluded that it is necessary to make available a standardised, low-cost, and diversified investment option suited to the life-cycle of the member to help them achieve retirement

¹²⁷ World Bank, 2008.

¹²⁸ OECD, 2014, 22.

¹²⁹ Ibid, 21.

¹³⁰ World Economic Forum, 2013, 19.

objectives.¹³¹ Aligning default, life-cycle investment choice for passive retirement savers at a low cost will inevitably contribute towards improving retirement adequacy and ultimately the robustness of the overall retirement system through reduced reliance on social support and a higher standard of living.

Australia has also been very progressive and intent on maintaining a robust retirement system. A major contributor to achieving this aim has been the commission of regular, public and comprehensive retirement system reviews; namely the 'Harmer Review' (2009), the 'Cooper Review' (2010), and the 'Henry Review' (2010), to name a few, which have all influenced the strengthening retirement outcomes for Australians.

4. SUMMARY OF FINDINGS

The Australian and Hong Kong retirement systems are not too dissimilar. Both are built on the foundation of the same four of the five World Bank retirement pillars: the non-contributory Zero Pillar, the mandatory Second Pillar, the voluntary Third Pillar, and the non-financial Fourth Pillar. The mandatory First Pillar has been excluded from both retirement systems.

Australia and Hong Kong both provide means-tested old age social support payments to their people. Hong Kong also provides a non-means tested payment to residents over the age of 70 in recognition of their contribution to society; whereas Australia does not. It is argued that this non-means tested payment contradicts the purpose of the Zero Pillar and affects the affordability, sustainability and equitability of Hong Kong's retirement system.

Australia and Hong Kong both also have a defined contribution mandatory Second Pillar; the SG system and the MPF, respectively. Contributions for each plan are employment linked. At full maturity, Australia's plan is expected to provide an adequate replacement income for full-time employees; however, its shortcomings include the fact that it does not make a mandatory provision for the self-employed and those who tend to have inconsistent work patterns (e.g. women and contract workers). Hong Kong's Second Pillar was established almost a decade after Australia's and is intended to complement the other retirement pillars. It includes mandatory requirements for employees and self-employed, yet also disadvantages individuals with inconsistent work patterns.

The biggest shortcoming of both retirement systems is that the reliance on defined contribution plans exposes the member to all of the risks associated with managing investment savings. In Australia and Hong Kong, members — the majority of whom are unskilled in investment management — are expected to ensure they accumulate sufficient wealth to fund retirement with very little education on pre-retirement wealth accumulation strategies and management of longevity risks post-retirement. The degree of flexibility and liberal use of funds upon attaining retirement age is destined to continue causing predictability, affordability and sustainability flaws in each retirement system.

¹³¹ MPFA, 2015, 4–5.

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