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Institute of Financial Planners of Hong Kong
香港財務策劃師學會

Professional Development Programme on

Contemporary Perspective of Personal Financial Management

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Course Content

Day Two AM Session

Part 1: Basic Concepts in Time Value of Money

Part 2: Personal Consumer Finance & Credit

Day Two PM Session

Part 1: Risks and Returns

Part 2: Lifecycle Financial Planning Approach

Lifecycle Financial Planning Approach

- Budgeting
- Life Cycle Investing in Financial Planning
- Introduction to Mandatory Provident Funds System

Lifecycle Financial Planning Approach

Budgeting

Lifecycle Financial Planning Approach

Personal financial planning consists of three general activities:

- Controlling your day-to-day finances to enable you to do the things that bring you satisfaction and enjoyment.
- Choosing and following a course toward long-term financial goals such as buying a house, sending your kids to college, or retiring comfortably.
- Building a financial safety net to prevent financial disasters caused by catastrophic illnesses or other personal tragedies.

Lifecycle Financial Planning Approach

Budgeting is the first step to financial success!

Why?

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Lifecycle Financial Planning Approach

Items should be appeared in a Budget

- Income
- Savings & Investments
- Food
- Housing
- Utilities
- Clothing
- Medical
- Entertainment
- Transportation
- Charitable giving
- Other payments

Lifecycle Financial Planning Approach

Life Cycle Investing In Financial Planning

Lifecycle Financial Planning Approach

Life-cycle Investing

- Typical Life Stages
- Setting Investment Objectives
- Portfolio Construction
- Portfolio Review
- Selecting Appropriate Products

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Typical Life Stages

- Young Single Adult
- Married, No Child
- Two-Income Household With Children
- Single Parent
- Middle-Aged Couple With Children
- Pre-retirees
- Retired Persons

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Personal Financial Planning in Different Life Stages

- As people move through the stages of the life cycle, their financial goals and investment strategies will change.
- Ultimately, each person must make decisions and take action in light of unique household situations and current economic conditions.

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Setting Investment Objectives

- Income with Capital Preservation
- Income with Moderate Growth
- Growth with Income
- Growth
- Aggressive Growth

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Portfolio Construction

- No two have the exact same investment goals.
- Generally, 4 factors are used in the portfolio construction and management process for individual investors

    1. Time horizon
    2. Risk tolerance level
    3. Diversification
    4. Liquidity

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Portfolio Review

- An annual checkup should keep one’s portfolio in line with the investment goals and help avoid making changes following short-term market swings.
- Some questions to consider about Portfolio Review:
  1. How often should one review the portfolio?
  2. How is the money invested?
  3. What’s one asset allocation/diversification?
- Any change in one’s life - expected or unexpected - may call for an immediate portfolio review.

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Selecting Appropriate Products

- Type of investor
- Risk Tolerance
  1. The Gambler vs. The Conservative:
  2. Inexperienced vs. Experienced
  3. Your Stage in Life
  4. Savers vs. Spenders
- Your Investment Objective
- Your Time Horizon

Introduction to Mandatory Provident Funds System

Lifecycle Financial Planning Approach

Introduction to MPF System

- Hong Kong has a rapidly ageing population. In 2004, the proportion of the population over the age of 65 was around 12%, but by 2033 this is projected to rise to 27%.
- This is due to both a low birth rate and increasing life expectancy in Hong Kong.
- This ageing population means the working population of the future will have a much larger number of retirees to support.
- Before the implementation of the MPF System, only about one-third of the Hong Kong workforce had some form of retirement protection.

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Introduction to MPF System

- In 1994, the World Bank published the report "Averting the Old-Age Crisis: Policies to Protect the Old and Promote Growth", in which a three-pillar approach to protection for the aged was put forward:
  1. a publicly managed, tax-financed social safety net;
  2. a mandatory, privately managed, fully funded contribution scheme; and
  3. voluntary personal savings and insurance.
- In 1995, the Mandatory Provident Fund Schemes Ordinance (MPFSO) was enacted, supplemented by subsidiary legislation passed in 1998, 1999 and 2000.
- The MPF System was launched in December 2000.

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MPF Statistics Updates	
(as at 31 December 06)	
MPF Enrolment Rate	
- Employers	98.5 %
- Relevant Employees	97.7 %
- Self-employed Persons	74.5 %
Approved Trustees	**19**
MPF Schemes	**40**
- Master Trust Schemes	36
- Industry Schemes	2
- Employer Sponsored Schemes	2

Approved Constituent Funds	316
By Fund Type	
- Balanced Fund	135
- Equity Fund	87
- Capital Preservation Fund	40
- Guaranteed Fund	31
- Bond Fund	18
- Money Market Fund	5
By Sponsoring Scheme	
- Master Trust Schemes	293
- Industry Schemes	13
- Employer Sponsored Schemes	10

Source: MPFA

Lifecycle Financial Planning Approach

3 Types of MPF schemes:

Master Trust Schemes: The most common type of MPF schemes, open to relevant employees of participating employers, self-employed persons and persons with accrued benefits transferred from other schemes.

Employer-sponsored Schemes: Membership of this type of schemes is limited to relevant employees of a single employer and its associated companies.

Industry Schemes: Schemes specially established for employees of the catering and construction industries, where there are high labour mobility and turnover.

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Features of MPF System

Coverage

- If you are an employee or are self-employed, are aged between 18 and 65, and are normally residing and working in Hong Kong, you are required to join an MPF scheme.
- Under the MPF System, an employee may be a regular employee or a casual employee. You are a regular employee if you are employed for a continuous period of not less than 60 days under an employment contract, either full-time or part-time.

Features of MPF System

Coverage

- You are a casual employee if you work for an employer in the catering or the construction industries, and are employed on a day-to-day basis or for a fixed period of less than 60 days.
- You are self-employed if you earn an income from the production or trade of goods or services, in a capacity not as an employee (i.e. you work for yourself).

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Features of MPF System

Exempt Persons:

- Domestic employees;
- Self-employed hawkers;
- People covered by statutory pension or provident fund schemes, such as civil servants and subsidized or grant school teachers;
- Members of occupational retirement schemes which are granted MPF exemption certificates;
- People from overseas who enter Hong Kong for employment for less than 13 months, or who are covered by overseas retirement schemes; and
- Employees of the European Union Office of the European Commission in Hong Kong.

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Features of MPF System

Contributions

- If you are an employee, subject to the maximum and minimum levels of income (currently $20,000 and $5,000 per month respectively), your employer will deduct 5% of your relevant income on your behalf as mandatory contributions to a registered MPF scheme.
- However, you are not required to make contributions for the first 30 days of your new employment and the following incomplete contribution period.

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Features of MPF System

Contributions

- Your employer will also be required to contribute an amount equivalent to 5% of your relevant income to the MPF scheme, subject only to the maximum level of income (currently $20,000 per month).
- This amount will immediately be vested in you as your accrued benefits in the scheme.
- Self-employed persons, subject to the maximum and minimum levels of income (currently $20,000 and $5,000 per month respectively or $240,000 and $60,000 per year respectively), have to contribute 5% of the relevant income.

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Features of MPF System

Contributions

- Self-employed persons can opt to make contributions on a monthly or yearly basis.
- Relevant income includes wages, salaries, leave pay, fee, commission, bonus, gratuity, perquisite or allowance, but excludes housing allowance or housing benefits. It also does not include severance payments and long service payments.
- Both self-employed, employer and employee can opt to make extra, voluntary contributions in addition to the mandatory contributions.

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Features of MPF System

Tax Concessions

- **For Employees**

  The mandatory contributions are tax deductible, subject to the maximum amount of $12,000 per year.

- **For Employers**

  The MPF contributions are tax deductible, to the extent that they do not exceed 15% of employees' yearly emolument.

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Features of MPF System

Offsetting of Severance and Long Service Payments

- Employer can offset long service payment and severance payment as required under the Employment Ordinance by the accrued benefits derived from contributions he has made to the employee in the MPF scheme.
- In offsetting this type of compensation, employers need to follow other requirements set out in the Employment Ordinance concerning such payments.

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Features of MPF System

Withdrawal of Accrued Benefits

- One can only claim for payment of accrued benefits when he reaches the age of 65, as stipulated in the MPFSO, except the following circumstances:
  1. Early retirement at the age 60; or
  2. Permanent departure from Hong Kong; or
  3. Total incapacity; or
  4. Death; or
  5. Small balance account of less than $5,000, no contributions made to a scheme for 12 months, and declared not to become employed or self-employed within the foreseeable future.

Lifecycle Financial Planning Approach

END of this Session