財經事務及庫務局
Financial Services and the Treasury Bureau

投委會 IFEC

保險業監管局
Insurance Authority

強制性公積金計劃管理局
MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

Key things to know about saving for retirement

Tax deductions for qualifying deferred annuity premiums and tax deductible MPF voluntary contributions

Retirement can cost more than you expect

As the average life expectancy for Hong Kong people is more than 80 years, retirement can potentially last for around 20 years. During retirement, your monthly living expenses, medical fees as well as cost of inflation can cost much more than you expect. Many market research reports and studies have revealed that each Hong Kong citizen would need several millions of dollars for their retirement, which can be an astronomical sum for a typical wage earner. Relying solely on the 10% MPF mandatory contributions made by employers and employees monthly is hardly sufficient. To enjoy a secure retirement life, the best way is to start saving for retirement as early as possible.

Time is your best friend for retirement savings

Take advantage of the power of compound effect and start saving or investing early. The longer your investment time horizon, the stronger the compound effect. Assuming that you invest $2,000 per month and the annual rate of return is 5%, you would have accumulated $140,000 after 5 years and $310,000 after 10 years. Keep this up for 30 years and the total amount will add up to $1.67 million! This is the power of long term investment and compound effect.

Saving up for retirement to enjoy tax deductions

If you have not yet started your retirement savings plan, there is good reason to do so now. Starting from April 2019, retirement savings by way of qualifying deferred annuity policies ("QDAP") or tax deductible MPF voluntary contributions ("TVC") could entitle you to tax deductions. The deduction cap is $60,000 per year, which is an aggregate limit for both qualifying deferred annuity premiums and TVC. Based on the prevailing highest tax rate (i.e. 17%), the maximum tax savings can reach up to $10,200 every year!

Retirement Planner

Spend a few minutes to work out your retirement budget:
https://www.thechinfamily.hk/web/en/tools-and-resources/calculators/index.html

Learn more about the tax deductions (Note 1)

Provide tax incentives to encourage the public to save early for retirement.

Qualifying deferred annuity policies ("QDAP") – For relevant premiums to qualify for tax deductions, a deferred annuity product must comply with the criteria set out in the guideline (including product design and information disclosure) issued by the Insurance Authority. More details can be found on page 7.

Tax deductible MPF voluntary contributions ("TVC") - scheme members can open a TVC account under an MPF scheme of their own choice. Only contributions made to TVC accounts are tax deductible.

The tax deductions, allowable under salaries tax or personal assessment, is subject to a cap of $60,000 per year. It is an aggregate limit for both qualifying deferred annuity premiums and TVC.

The actual tax savings depend on personal income level, entitled tax allowances and deductions as well as the amounts of qualifying deferred annuity premiums paid or the amounts of TVC made. Based on the prevailing highest tax rate (i.e. 17%), the maximum tax savings can reach $10,200.

A married couple is allowed to allocate tax deductions for qualifying deferred annuity premiums amongst themselves in order to claim the total deductions of $120,000, provided that the deductions claimed by each taxpayer does not exceed the individual limit. A taxpayer is allowed to claim tax deductions for qualifying deferred annuity premiums paid for QDAP covering the couple as joint annuitants, or either the taxpayer or the taxpayer's spouse as a sole annuitant.

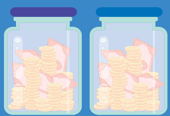
From 1 April 2019 onwards, the public can start purchasing QDAP or opening a TVC account to make contributions.

The tax deduction measures will be effective from the year of assessment 2019/20. Taxpayers can claim the relevant deductions when they file the "Tax Return – Individuals" for the year of assessment 2019/20.

Note 1 : The relevant provisions in the Inland Revenue Ordinance (Cap. 112) must be fulfilled.

Tax savings

The following table provides an example of the potential annual tax savings for individuals with different incomes and tax brackets. Assuming the taxpayer is only entitled to basic allowance, married person's allowance, child allowance and tax deductions from MPF mandatory contributions, the tax savings per year are (Note 2) :

	Single Person	Single Person	Single Person	Single Person	Married person, 1 child, spouse not working
Monthly income	$15,000 Annual income $180,000	$20,000 Annual income $240,000	$30,000 Annual income $360,000	$60,000 Annual income $720,000	$60,000 Annual income $720,000
Original tax payable	$780	$3,760	$17,700	$78,900	$36,060
Amount of QDAP premiums and/or of TVC 	$9,000*	$12,000*	$18,000*	$60,000	$60,000
New tax payable	$600	$3,040	$14,880	$68,700	$25,860
Annual tax savings	$180	$720	$2,820	$10,200	$10,200

Note 2: The example is only for illustration and reference. While the relevant tax deductions can help the taxpayer save up to $10,200 per year, it does not mean that any taxpayer who uses up to the deduction cap of $60,000 can enjoy $10,200 in tax savings. Tax savings depends on a number of factors, including personal income level, entitled tax allowances and deductions as well as the amount of qualifying deferred annuity premiums or TVC, etc. The above example takes 20 March 2019 as the date of calculation.

* For the 3 scenarios, it is assumed that the taxpayer will not make $60,000 of tax deductible savings given his/her relatively low income, and hence will not make claims with the full tax deductible amount for qualifying deferred annuity premiums and TVCs.

What is an annuity? What is a deferred annuity?

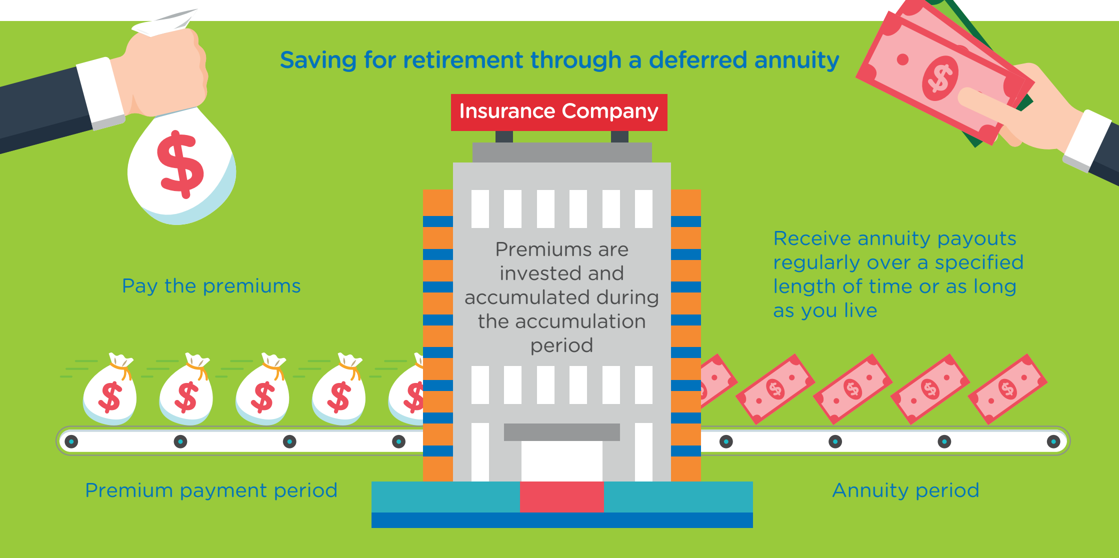
Annuity is a long-term insurance product. The key purpose is to help a policyholder to convert savings into a steady stream of income. A policyholder pays premiums to an insurance company, which in turn, provides him with regular annuity payouts immediately, or after a designated period of time, until he/she reaches a certain time specified in the insurance contract. Annuities can generally be categorized into immediate annuities and deferred annuities.

An immediate annuity does not have an accumulation phase. A policyholder starts receiving annuity payouts monthly once the premium has been paid in a lump sum. For example, the Government-initiated "HKMC Annuity Plan" is an immediate annuity. An immediate annuity is more suitable for retirees as they usually have accumulated a sum of money but have no income. Retirees can use part of their savings to purchase an immediate annuity and start receiving a steady stream of income. Purchasing an annuity only requires a one-off transaction and a policyholder does not need to spend much time managing the annuity in the future. It is a simple retirement financial arrangement that offers peace of mind, particularly for the elderly who are not good at financial management.

A deferred annuity has an accumulation phase. A policyholder can pay premiums by a lump-sum or by instalments, which are then invested and accumulated during the accumulation phase. A policyholder will start receiving the annuity payouts after a certain period of time (e.g. on retirement). A deferred annuity is more suitable for the working population. It allows policyholders to accumulate retirement savings by instalments when they are young, and convert the savings into a steady stream of income when they retire to cover their daily expenses. Additionally, qualifying deferred annuity premiums are eligible for tax deductions.

Annuity plans offered by the private sector are mostly deferred annuities, with the annuity payouts usually comprising both "guaranteed" and "non-guaranteed" payouts. The "non-guaranteed" part is often affected by factors such as investment returns, claims and profits of the insurance company. In an extreme case, the "non-guaranteed" part can be zero.

Same as other long-term insurance products, early surrender or termination of an annuity plan may incur financial loss. The surrender value could be much less than the total amount of premiums paid. Before buying an annuity, you should consider your liquidity needs and make sure you can afford the premiums over the whole payment period and set aside sufficient cash for daily and contingency expenses. Also, there is usually no remaining value after the end of the annuity period. Individuals who want to leave an inheritance should make other arrangements. Please visit the Annuity Sitelet jointly developed by The Chin Family and the Insurance Authority for more information.



What is a qualifying deferred annuity policy ("QDAP")?

For relevant premiums to qualify for tax deductions, a deferred annuity product must comply with the guideline issued by the Insurance Authority, including:

- **Minimum total premiums of $180,000 and minimum payment period of 5 years**
- **Minimum annuity period of 10 years**
- **Annuitization at the age of 50 or beyond**
- **Disclosure of the internal rate of return of the product to facilitate evaluation and comparison**
- **Clear presentation of the guaranteed and non-guaranteed annuity payouts**
- **Clear separation of premiums of all riders (e.g. critical illness, hospitalization cash, etc.) from the qualifying deferred annuity premiums**

To facilitate filing of tax returns for policyholders, insurance companies will issue an annual summary of QDAP to policyholders every year.

The sales document of a QDAP is printed with the QDAP logo. From 1 April 2019, the public can visit the website of the Insurance Authority (www.ia.org.hk) for the list of QDAP available in the market.

What are tax deductible voluntary contributions ("TVC")?

TVC is a new type of contributions under the MPF system. Members with contribution accounts or personal accounts of MPF schemes, or members of MPF Exempted ORSO schemes are all eligible to make TVC.

TVC is an easy and convenient way to save for retirement. Scheme members can open a TVC account under an MPF scheme of their own choice and make TVC directly to the account without going through the employers. Only contributions made to TVC accounts not exceeding the tax deduction cap are tax deductible. Other types of MPF voluntary contributions are not tax deductible.

To facilitate filing of tax returns for scheme members, MPF trustees will provide a contribution summary to TVC account holders every year.

Scheme members can enjoy the flexibility to make TVC to their TVC accounts at any time and in varying amounts. They can also increase or reduce the amount of contributions, or cease to make contributions, or resume the making of contributions at any time having regard to their personal circumstances. However, same as the MPF mandatory contributions, TVC has to be preserved until the age of 65 (unless exempted on other statutory grounds).

Most MPF schemes offer TVC accounts. The various fund options under the schemes are also available to TVC account holders to choose. From 1 April 2019, the public can visit the TVC webpage or the Trustee Service Comparative Platform in the MPFA's website (www.mpfa.org.hk) to identify MPF schemes which offer TVC accounts.

Select suitable products based on your own needs

QDAP and TVC are both retirement financial planning tools. However, they differ in terms of nature, features and limitations. You should study the details and select appropriate products based on your own needs. Product information can be obtained from the product providers. For tax deduction-related questions, please visit the website of the Inland Revenue Department (www.ird.gov.hk).

	QDAP	TVC
Nature	Insurance	Fund investment
Investment decision	A policyholder does not need to make any investment decision. The insurance company is required to disclose the internal rate of return of the relevant products, of which the guaranteed part must comply with the minimum return requirement.	There are various funds available for selection under the MPF schemes. Scheme members have to bear investment risks.
Minimum premiums or contribution amount	Minimum total premiums of $180,000	N.A. (Note 3)
Minimum payment or contribution period	5 years	No
Fixed premium payment or contribution intervals	Subject to contract terms. Usually, premiums are paid yearly, half-yearly or monthly.	A scheme member can make TVC anytime or regularly.
Payment or contribution break	Subject to contract terms. Usually if a policyholder misses a payment, he or she will suffer financial loss because part of the cash value of the annuity would be used to cover the payment in the form of policy loan. This may also result in policy lapse.	Contributions can be stopped or the amount can be changed at any time. However, withdrawal of benefits from the account is subject to the preservation requirement until the age of 65 (unless exempted on other statutory grounds, e.g. early retirement at the age of 60).
Termination	Subject to the contract terms. Early surrender or termination will incur financial loss. The surrender value could be much less than the total amount of premiums paid.	Contributions can be stopped at any time. However, withdrawal of benefits from the account is subject to the preservation requirement until the age of 65 (or on other statutory grounds, e.g. early retirement at the age of 60)
Age of payout or withdrawal	50 or beyond	65 (unless exempted on other statutory grounds, e.g. early retirement at the age of 60)
Payout or withdrawal period	Minimum 10 years, with payouts by instalments	Can be withdrawn in a lump sum or by instalments upon retirement
Can a married couple jointly claim the tax deductions?	Yes (provided that the deductions claimed by each taxpayer does not exceed the individual cap)	No
Cooling-off period	Yes, the policy can be cancelled within the cooling-off period	No, but a scheme member can stop making contributions at any time
Product provider	Insurance companies	MPF trustees

Note 3：Individual MPF schemes may have relevant administrative requirements. Please contact the relevant MPF trustees for details.

Please visit the dedicated page on QDAP and TVC of The Chin Family website for more information.