Thesis Title

A Study of the Retirement Investment Asset Allocation

and Planned Retirement Age of the Hong Kong Middle-Class

By

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The title of the thesis has been changed during the process. The original title in the proposal stage and ethical process was “A Study of the Retirement Investment Asset Allocation and Planned Retirement Age of the Hong Kong Middle-Class: Are they Financially Prepared for Retirement?” It was later simplified by deleting the last sentence to the current title.
Statement of Originality:

I hereby declare that this thesis contains no material which has been accepted for the award of any other degree or diploma in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text. I give consent to the final version of my thesis being made available worldwide when deposited in the University’s Digital Repository, subject to the provisions of the Copyright Act 1968.

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March, 2016
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Synopsis

The world is faced with the problem of an aging population and the cost of public pension is expected to increase rapidly. Hong Kong is of no exception. It is having the same issue of how to support a growing retired population. However, Hong Kong has adopted the free market doctrine and is a low tax regime; citizens in Hong Kong, particularly the middle-class, are supposed to look after themselves. Moreover, Hong Kong is an international financial centre providing the most sophisticated financial products and services that can help investors to get the best returns available in the market. Therefore, all these favourable factors should be able to ensure that the average savings of the middle-class are able to support them with a comfortable retirement life.

This study comprised a territorial wide mail questionnaire survey of a representative sample of middle-class households, and obtained 475 valid replies from those middle-class households. The information obtained included their retirement investment asset allocations, household monthly income, retirement savings, planned retirement age and other family characteristics. The Cluster Analysis technique was used to summarize the 475 households into meaningful clusters by retirement investment asset allocations, household monthly income, retirement savings and planned retirement age.

In the second stage of the analysis, a simulation was conducted to simulate the financial outcomes of their asset allocations based on the historical market returns of the various asset classes in the past 30 years. These financial outcomes were then used to compare whether those middle-class households could meet 80% of the household expenses of a typical household in the year of their planned retirement. Meeting 80% of typical household expense has been regarded as a comfortable retirement in previous
studies. The research found that about 72% of Hong Kong households, including the ‘average middle-class’ (established through Cluster Analysis), might not be able to support a comfortable retirement life. Only the ‘above average middle-class’ and the ‘wealthy middle-class’ are prepared for their retirement. In addition, it was found that there was a general deficiency in the asset allocation of the retirement savings among the middle-class in Hong Kong. Based on the Capital Asset Pricing Model, a re-allocation to a greater portion of high quality investment-grade bonds would result in a strategic asset allocation that better matches the needs of Hong Kong retirees.

In the final stage of the analysis, a model has been developed through the Logistic Regression technique, which can be used to predict the probability that a household is not prepared for retirement. Nevertheless, this is a cross-sectional study and similar study should be conducted in the future in order to obtain a longitudinal view on the middle-class households. A further limitation is the use of historical data to measure the expected returns across each asset class. While this was deemed the most appropriate measure of expectations, past returns may not be repeated in the future. Further research on why an international financial centre such as Hong Kong cannot direct middle-class investors to the ideal portfolio is warranted.
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