ADVANCE FINANCIAL PLANNING IN THE THIRD AGE IN HONG KONG

Executive Summary

Sau Po Centre on Ageing, The University of Hong Kong

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Enquiry

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1. Background

The population of Hong Kong is ageing fast with one in every three people expected to be older than 65 in 2066. Population ageing is to become one of the greatest social transformations, with implications for all sectors of society, including the labour market and economic performance as well as the affordability and financial sustainability of the public systems of health care, pensions, and social protection. Financial preparation for retirement and asset management during retirement is a topic of growing public policy importance as the population ageing becomes increasingly visible.

Financial planning for retirement consists of a series of activities involved in the accumulation and decumulation of wealth to cover the needs in the post-retirement stage until the end of life and beyond. Previous studies have greatly focused on asset accumulation patterns that seek to build up resources adequate to prevent longevity risk. Little attention has been paid to how older people decumulate their resources in retirement. The current study analyzed the factors that influence the decisions and choices relating to financial and legal tools on financial decumulation. Special focus was given to older people's choices on six identified tools including joint accounts, reverse mortgages, annuities, enduring power of attorneys, guardianship orders, and wills. These six tools are available in the market and are referring to tools of advance financial planning in this report. This study focused on the six tools because they are relatively complicated, which requires individuals to delay gratification for a long-term reward, to shift from asset accumulation to decumulation, and take precautionary decisions. There is a general lack of awareness or confusion about the tools available for financial planning and older people's knowledge and decisions on these available planning tools are not well understood. The six tools cover money management, estate planning, preparation for mental incapacity and death, and wealth transfer. Understanding older people's financial decisions in preparation for retirement protection and health challenges has important social policy implications, as their choices can dampen economic growth and increase the cost for social welfare systems.

2. Objectives

This study aimed to investigate older people's experiences, attitudes, and decision-making behaviors in advance financial planning.

There are three research objectives of this study:

1) To explore older people's experiences, knowledge gaps, and attitudes toward advance financial planning.
2) To examine the process of older people making their decisions on advance financial planning and what factors would impact their decision-making.
3) Based on the above results, to develop and produce a knowledge transformation tool for improving financial literacy among older people.

3. Methodology

This research adopted a novel three-stage, participatory peer research method. Stage 1 comprised peer researcher recruitment and training. Stage 2 was data collection. A triangulation of qualitative method with a combination of individual interviews and focus groups was used. Data were collected by peer researchers consisting of older people and law students from March to July 2020. Stage 3 was data analysis, result interpretation, and knowledge transformation. Thematic analysis was used to generate themes. The peer researchers were actively participating in all research activities, including the formulation of interviewing questions, participant recruitment, data collection, result interpretation, and development of a knowledge transformation tool.

4. Main findings

4.1. Demographic characteristics

Semi-structured interviews were conducted with 60 older people aged 50–70 (63.3% were female). Participants were recruited through the personal networks of the researchers, and social workers from a District Elderly Community Centre. The majority had obtained an upper secondary education or above (76.6%), were retired (63.3%), were married (71.6%), lived in private permanent housing (78.3%), had children (60%), and lived with family members (85%). In terms of monthly income, 36.7% were at $5,000 and below, 33.3% were between $5,000 and $19,999, and 30.1% were at $20,000 and above.

4.2. Decisions towards six tools

Regarding the financial and legal tools that the participants currently using, the most common were joint accounts (69.6%), followed by wills (32.6%), private annuity plan (30.4%), public annuity (8.7%), and guardianships (6.5%). Participants also have other types of investment products (10.9%) such as stocks, bonds, insurance products, and bank deposits. None of the participants had set up an enduring power of attorney or reverse mortgage.

4.3. Attitude toward six tools

Three sub-themes relevant to the attitudes toward advanced financial planning were identified. First, financial planning is **not just about money.** As life expectancy grows, so the expectations for healthy ageing. Financial planning also includes health management, disease prevention, aged care, and family asset arrangement. Second, participants mentioned that retirement planning should **start as early as possible** to build a safety net. Third, **financial knowledge** is perceived to be important to make optimal decisions, and financial education is needed for citizens of all ages.

4.4. **Factors associated with decisions and attitude**

This study explored how older people make their decisions on the six tools for advance financial planning and what factors influence their decision-making. Three proximal determinants of planning behaviors are (a) time-preference, (b) goals for financial choices, and (c) financial knowledge. Individuals with a future-time orientation or perceived proximity to illness and death are more likely to plan for retirement. However, present-time bias can constrain future choices. The goal for financial actions is to achieve **two dimensions of balance**: 1) balance between self-care and family support; 2) balance risk protection and asset security. Moreover, individuals with greater knowledge and understanding of available financial tools are more likely to use them.

Participants in their third age engaged in advance financial planning for a range of **goals**, including **financial security and safety, live more comfortably, self-reliance, and support the family.** Results indicated that wills ranked the most important choice for participants at the current moment, followed by joint accounts, annuity plans, enduring power of attorneys, reverse mortgages, and guardianships. The relative importance of ranking also indicates how and whether these planning tools are perceived as helpful to address the needs and goals of older people. The functions of the six tools can be positioned based on a two-dimensional framework: “self–family” and “risk prevention–asset optimization”. Wills and joint accounts were used by participants to plan for physical or mental contingencies/risks. These two tools can help to plan assets, reduce family fighting, support family, and bring a sense of security and safety. Enduring power of attorneys and guardianships were unfamiliar concepts by participants and not perceived as superior tools to other choices (such as joint accounts, third party mandate, family support) in preventing the risk of mental incapacity. Participants saw the annuity products and reverse mortgages having different functions, although both have the features of assets decumulation, stability, and long-term financial security. Annuities were perceived to supplement ones’ retirement income and to live comfortably. The reverse mortgage scheme was regarded as a violation of bequest motive (support family) and it was the “last option” to finance retirement.

Participants had a lot of misconceptions and knowledge gaps in existing financial and legal tools. These misconceptions may explain why older people make suboptimal financial decisions for their legal and financial interests. They may not have the required knowledge to make informed decisions. Insufficient knowledge may also increase the exposure of financial abuse, misuse, and misconduct. For instance, participants saw a spouse- or parent-child joint bank account as a cheap and easy way to plan for health challenges or to avoid probate. Many participants took it for granted that joint assets will automatically belong to the survivor upon the death of one account holder, without knowing whether the “survivorship clause” (a survivorship clause operates to transfer the beneficial interest in the asset to the survivor) applies to their joint accounts. They also thought that a general power of attorney will still legally effective when the donor becomes mentally incapacitated.

The decision-making process is influenced by individual characteristics, product features, family and peer influences, and environmental factors. Individual characteristics include financial resources, self-perceived health conditions, and inertia. Product features refer to eligibility criteria, feasibility/complexity in operationalization, and safety and risks.

Influences from family, peers and environmental factors (the social norm of leaving a bequest, and trust in providers) both facilitate and constrain financial decision making.

The main drivers explaining participants' choice inefficiencies are present-time bias, poor financial and legal knowledge, inertia, the complexity of the products/tools, difficulties in implement choices, social networks, and bequest motives.

5. Recommendations

We recommend that research and financial education for retirement protection should not only be about accumulating wealth for retirement, but also about how to decumulate and plan assets in a way that is sustainable for the long term. More specifically:

We advocate that **financial planning is beyond self, beyond money, beyond retirement, beyond age, and beyond the present of time.** Financial planning for retirement goes beyond "money and estates", and to include also health maintenance, aged care, family support, and wealth transfer. Retirement planning should start as early as possible to build a safety net. Financial education is perceived to be important for citizens of all ages.

To improve the financial well-being of older people, **we advocate an empowering informed decision-making approach through** (1) strong promotion of future-orientation and forward-thinking; (2) formulation of balanced financial goals using a two-dimensional framework; (3) popularizing relevant financial and legal knowledge; and (4) increasing accessibility and affordability of services.

Recommendation on goal setting: The **two-dimensional framework** can be used for setting balanced financial goals across the "self-care–family support" dimension and "risk prevention–asset optimization" dimension. This framework can help older people to better understand personal financial decumulation goals, the nature and functions of available options and tools they can use to achieve their goals, and whether they want these tools to be a part of their financial plan.

Recommendation on education: Increasing familiarity and understanding of existing financial and legal tools is vitally important for making optimal financial options. **Empowering older people by addressing the knowledge gaps and misconceptions will assist their decision-making**. We developed a knowledge transformation tool consisting of an online self-assessment quiz and six animations. The tool can be served as an example to address the greatest common misconceptions held by participants from the current study. The six-item quiz can be used for self-learning for older adults. The quiz can also be used by educators to assess the baseline financial knowledge of the audience. Six animations can be easily integrated into social media platforms for public education. Each of the animations can also be served as a case study for group work or used in other educational activities such as public lectures, seminars, workshops.

We also recommend that financial and legal education is needed to increase the understanding of different options available to plan for potential events of mental incapacity and death, because not all options are suitable once someone has lost mental capacity. Practitioners can assist older people **with assembling a list of options to help**

them collect information or solicit advice from others. Comparisons between potential options need to be emphasized so that individuals can have the knowledge to distinguish carefully among the many alternatives. Besides, financial education should be **family-oriented** and directed at the broader family unit (older couples, older adults with their parents/adult children, and family caregivers). Older people and their families must understand these available tools, how and when these tools function.

Recommendation on product description: A product or tool designed must address consumer concerns, meet their goals, and take special care to provide a clear product description to increase consumer interests. **Audience-targeted motivational strategies** can be used to drive behavioral change in the way that consumer manages their finances. It is quite common amongst Chinese parents wishing to leave an inheritance behind as a means to support the family. The reverse mortgage schemes can be described as a means of gifting money or supporting families and children rather than in the alternative frame as a tool to improve quality of life.

Recommendation on product design and policy: People easily lock into habits and rely on them with little thought (inertia). In some circumstances, policymakers can take advantage of the inertia by setting **defaults** that promote financial behaviors. For instance, it is common that the survivorship clause is included in the joint accounts opening documents. The public annuity product can be connected to the Mandatory Provident Fund (MPF) account with an "opt-out" policy, where the annuity plan is the default for MPF scheme members, but they can actively choose not to join.

Recommendation on provision of social services: Experienced and trained peer researchers could serve as role models and educators who can assist in delivering financial education in the communities (elderly centers, law societies, memory clinics). Peer researchers and law students can be trained and placed to educate older people and their family members. Peer researchers are only responsible for explaining the salient features of the products/tools, complexities of different options together with pitfalls, and legal ramifications in general terms.

Recommendation for future research: First, this study has identified many psychological, product, and environmental factors that may influence financial behaviors. Further study is needed to examine the relative effects of those factors. In particular, which effects are dominant in which settings. Second, the knowledge transformation tool only has six items and is not sufficient to address all the misconceptions identified in the study. This tool can be further extended based on the knowledge gaps and suboptimal choices made by participants. Third, future research is also required to understand the decumulation patterns of older people, i.e., how older people preserve, invest, spend, and bequeath their assets and wealth and what are the most serious risks to financial security.