

Press Release

HKMC to introduce Life Annuity Scheme

The Hong Kong Mortgage Corporation Limited (HKMC) announced today (Monday) that its Board of Directors has approved in principle to introduce a brand new life annuity scheme.

The Chairman of the HKMC and Financial Secretary of the Government of the Hong Kong Special Administrative Region, Mr Paul Chan, said, “Due to the rapidly ageing population of Hong Kong, enhancing the quality of living of the elderly after their retirement is one of the key policy focuses of the Government. In the light of the elderly’s increasing demand for retirement financial planning support, I announced in the Budget for this year that the HKMC had started studying the design and feasibility of the public annuity scheme. I’m glad that the HKMC Board has approved in principle today the introduction of the life annuity scheme. It will provide an additional financial planning option to the elderly, to help them turn cash lump sums into life-long streams of fixed monthly income, so that they can better enjoy the rest of their lives.”

The Deputy Chairman of the HKMC and the Chief Executive of the Hong Kong Monetary Authority (HKMA), Mr Norman Chan, said, “The premise for introducing the life annuity scheme is that it must be financially viable and sustainable. Commitments to the annuitants under the scheme are lifetime in nature. The HKMC has to achieve a reasonable level of long-term return out of the investment of the premiums collected under the scheme so as to be able

to provide a sustainable, fixed amount of income to the annuitants. Meanwhile, the HKMC has to ensure that the relevant risks will be properly managed. I'm confident that the HKMC can provide an attractive and yet financially sustainable life annuity scheme.”

The design of the HKMC life annuity scheme intends to provide immediate lifetime payouts to annuitants aged 65 or above after a lump-sum premium payment. A cap and a floor on premium amount will be set for each annuitant (tentatively at HK\$1 million and HK\$50,000 respectively). According to the preliminary estimation of the HKMC based on internal rates of return in the range of 3%-4%, the expected level of monthly fixed payout for a male annuitant at the entry age of 65 would be in the range of HK\$500-HK\$580 per HK\$100,000 premium paid (corresponding to annuity rates of around 6%-7%). Female annuitants, due to a longer life expectancy, are expected to receive a monthly payout in the range of around HK\$450-HK\$530 per HK\$100,000 premium paid (corresponding to annuity rates of around 5.4%-6.4%). The above estimates will be subject to further validation and confirmation by an independent consultant, and hence the exact amounts may need to be adjusted before the scheme is launched, but the HKMC will endeavor to provide a higher and attractive level of payout as far as possible. The launch of the scheme will also be subject to the support of the HKMA and the authorization by the insurance industry regulatory authority.

Chief Executive Officer of the HKMC, Mr Raymond Li, said, “After the approval-in-principle by the HKMC Board, the HKMC will immediately proceed with the preparatory work for implementing the scheme, including

further validating the payout levels and assessing the relevant risks, finalizing other details of the scheme, seeking authorization by the insurance industry regulatory authority, firming up the support of the HKMA in terms of investment management of premiums and capital, developing a distribution network, and planning and organizing the relevant education and promotion activities. The HKMC will endeavor to complete these tasks as soon as possible, with a view to launching the scheme by the middle of next year.”

The HKMC is a wholly-owned subsidiary of the Exchange Fund established in 1997. Since inception, the HKMC has been operating prudently, and has contributed significantly in the areas of mortgage securitization, debt market development and mortgage insurance. Recently, the HKMC has launched the market-based Reverse Mortgage Programme to meet the needs of retiring Hong Kong people, so that they can enjoy the rest of their lives. The life annuity scheme is another brand new market-based product.

The Hong Kong Mortgage Corporation Limited

10 April 2017

HKMC Life Annuity Scheme

Tentative key design features*

1. Type of Annuity	<ul style="list-style-type: none"> Immediate lifetime guaranteed fixed annuity 																			
2. Eligibility	<ul style="list-style-type: none"> Permanent Hong Kong residents 																			
3. Issue age	<ul style="list-style-type: none"> Aged 65 or above 																			
4. Premium payment	<ul style="list-style-type: none"> Single premium 																			
5. Policy currency	<ul style="list-style-type: none"> Hong Kong dollar 																			
6. Minimum premium	<ul style="list-style-type: none"> HK\$50,000 																			
7. Maximum premium	<ul style="list-style-type: none"> HK\$1,000,000 (to be applied to each annuitant on a cumulative basis) 																			
8. Coverage period	<ul style="list-style-type: none"> Lifetime 																			
9. Annuity basis	<ul style="list-style-type: none"> Immediate guaranteed fixed monthly annuity payment until the death of the annuitant 																			
10. Tentative estimated levels of monthly payout (based on internal rate of return of 3% to 4%)	<table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="4" style="text-align: center;">At the entry age of 65, for each HK\$100,000 premium</th> </tr> <tr> <th colspan="2"></th> <th style="text-align: center;">Internal rate of return</th> <th style="text-align: center;">3%</th> <th style="text-align: center;">4%</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Male</td> <td style="text-align: center;">Estimated monthly fixed payout (Annuity rate)</td> <td style="text-align: center;">about HK\$500 (around 6%)</td> <td style="text-align: center;">about HK\$580 (around 7%)</td> <td></td> </tr> <tr> <td style="text-align: center;">Female</td> <td style="text-align: center;">Estimated monthly fixed payout (Annuity rate)</td> <td style="text-align: center;">about HK\$450 (around 5.4%)</td> <td style="text-align: center;">about HK\$530 (around 6.4%)</td> <td></td> </tr> </tbody> </table>	At the entry age of 65, for each HK\$100,000 premium						Internal rate of return	3%	4%	Male	Estimated monthly fixed payout (Annuity rate)	about HK\$500 (around 6%)	about HK\$580 (around 7%)		Female	Estimated monthly fixed payout (Annuity rate)	about HK\$450 (around 5.4%)	about HK\$530 (around 6.4%)	
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11. Death benefit	<ul style="list-style-type: none"> Each annuitant is guaranteed to receive instalments of monthly annuity payment of total amount equals to 105% of the premium paid If an annuitant dies before receiving 105% of the premium paid, the beneficiary(ies) of the annuitant will receive the remaining unpaid monthly instalments or a lump-sum amount 																			
12. Surrender arrangement	<ul style="list-style-type: none"> An annuitant may opt to surrender the policy before receiving 105% of the premium paid The surrender value equals to the present value of the remaining unpaid instalments of monthly annuity payment 																			
13. Health underwriting	<ul style="list-style-type: none"> Not required 																			

* For reference only, subject to independent external validation and calibration, and approval by insurance industry regulatory authority