Financial planning for UK expats in Hong Kong

from when you arrive until after your departure

By Nicholas Jackson, Financial Advisor and British Expat residing in Hong Kong for over 10 year

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Introduction

Nicholas Jackson

Having lived in Shanghai for two years and then Hong Kong for the past 11- I would define myself as an overseas resident- but some of us still use the word expatriate. I would say the words are interchangeable.

Nowadays the vast majority of overseas residents are choosing to move offshore rather than being posted here. They often are on ‘local’ contracts- meaning a regular salary and perhaps a housing allowance. Less and less of us are having school fees and paid flights home as part of our ‘package.’ What this means is that we have to take more responsibility for our financial planning and we should take advantage of often higher salaries, potentially subsidized rent and lower taxes.

We must also take more personal responsibility for our financial circumstances while here. We often come from jurisdictions where our salary is paid net of deductions such as tax, state pension, personal pensions etc. Whereas in Hong Kong we receive our salary gross (except for Mandatory Provident Fund- MPF). If we do not take responsibility we can find five years have gone by and we have nothing to show for it.

I have put together a brief outline of my experience from 11 years of living in Hong Kong and advising personal clients on their financial plans.

Chapter One

On Arrival

Lan Kwai Fung, Hong Kong
Photo courtesy of WSJ

The vast majority of the people I have met take 3-6 months to work out their salary and expenses. This is perfectly normal as they often want to go out, socialize, join clubs etc for the first few months.

What is very important is setting aside 15% of their salary to tax- this can even be auto instruction to a separate bank account to ensure you do not spend in down Lan Kwai Fung. It is quite a shock when that first-year tax demand is dropped through the post and you have no money to pay it.

Chapter Two

Rent or Buy

Hong Kong Apartments: some of the most expensive real estate in the Word

I am often asked- is this the right time to buy in Hong Kong? I was told once- if you plan to be here for at least 5 years- then buy. It some ways taking action is what counts, I have encountered hundreds of people who have said to me they are going to buy a flat in HK and 3 years later have still not done it.

What has changed since I have been here is the non- permanent resident stamp duty of 15% on top of the regular stamp duty has made the purchasing a huge cash outflow- with taxes and deposits potentially being up to 50% of the purchase price. So be aware of how much money is tied up.

I rented for 6 years before I bought and I would say that for what I had, my rent was never excessive. My advice is haggle, haggle, haggle. The great thing about HK is you can look at 20 places in one day- often 5-6 places in one building.

Take the time see lots of places compare them and use this as a negotiating tactic- it will save you money in the long run. Hong Kong rental yields (yearly rent divided by value) can be as low as 2.5%. I am from the UK where yields range from London- 3.5% , Edinburgh-6% and Manchester-6%. So perhaps an alternative is to buy overseas rent it out and use that to help with your rent here in HK.

Pollock's Path on the Peak, The World's Priciest Street

Chapter Three

MPF, Saving and Investments

Hong Kong Yen from the Japanese Occupation
You've probably never seen one of these, because they were made only during the brief period during WWII when Japan occupied Hong Kong.

The Mandatory Provident Fund (MPF) is the Hong Kong pension fund- it is a so called defined contribution scheme where the future value is determined by your level of contributions and the growth of your scheme (you are responsible for the future benefit). The alternative to this is a defined benefit scheme like the UK state pension- where you make National Insurance (NI) contributions and at retirement age (65 for women & 67 for men) you collect a defined benefit (currently GBP130 per week) – which the UK government is responsible for.

For MPF I recommend that if your company matches your contribution then maximize this allowance. This can still only be 10% of your salary and can be as little as 3%. From a planning perspective a rule of thumb is to save between 15% of your salary to your retirement or pension fund

It is very easy to say I have my pension sorted out but your will be working until 80 if you only put 3% a month away (if you want a decent retirement). Many HK residents have set up insurance based saving or pension plans to complement their MPF or ORSO (please spell out).

These plans have been sold in HK for over 20 years and although much maligned, if used correctly are an effective portable and tax efficient pension. Unfortunately they are often set up incorrectly and one of my goals is to help clients use these plans efficiently.

When clients transfer the servicing of their plans across to us, sometimes the information they receive can be painful to hear but my ultimate goal is to re-engage the client with the plan and move forward rather than dwelling on the past.

The Hong Kong dollar is the eighth most traded currency in the world

Chapter Four

Transferring your Pension

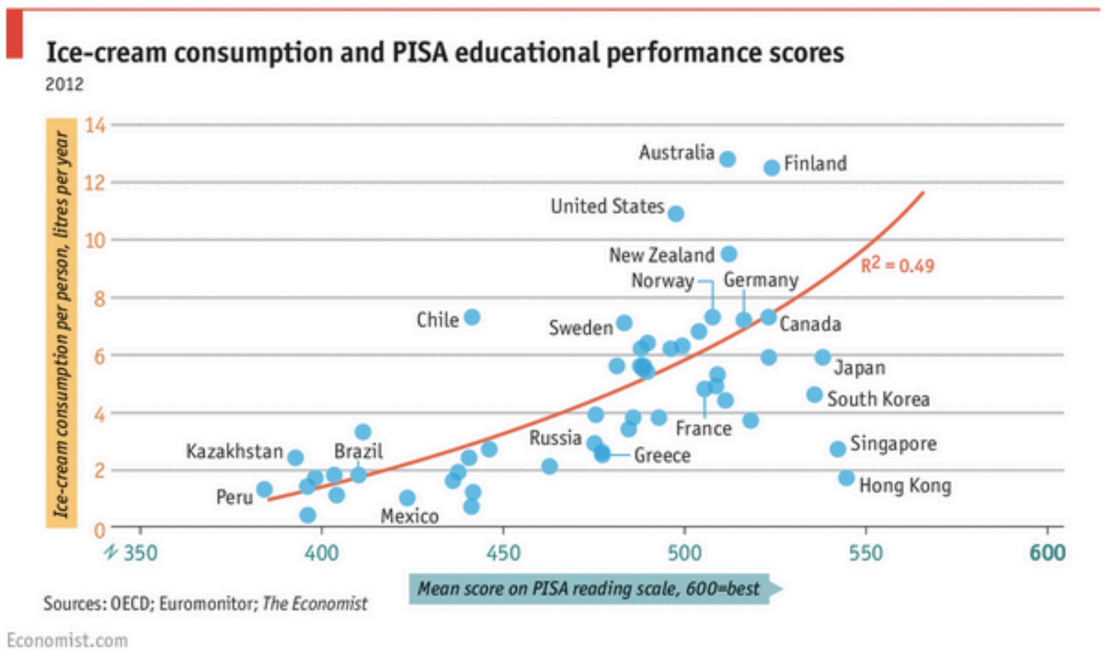
QROPS: xxxxxxxxxxxx

Expats with UK based pensions have been able to move their pension offshore for the past 10 years- as long as they had been non-resident for the previous 5. The technical term is Qualifying Recognised Overseas Pension Scheme (QROPS). The main reasons for doing so have been predominately, tax efficiency, consolidation of multiple UK pensions into one and flexibility.

The decision to do this is really about weighing up the pro and cons of moving- what is very important is you have a full analysis of your final salary (defined benefit) scheme and determine what level of growth is required (after fees) to match what you are giving up.

Chapter Five

Planning for School



Hong Kong kids might be ice cream poor but they are certainly book rich

My wife is from Hong Kong so it is important for us to make sure our children speak Chinese. There is no better environment to do so than local schools which is why we have chosen to send our eldest to the local school. Having said that, I have spoken to several clients who find it frustrating that they can't help their children with their homework.

Another concern in Hong Kong is not getting your children into school- you hear about children being put on school waiting lists before they are born. A teacher friend of mine said that parents often panic but her recommendation was to have your child down for multiple schools.

Hong Kong is a transient place and parents who have had their children's names down on lists since birth may end up being relocated even before they start school, so places open up. Then you make your decision and stick with it. The mistake people can make is turning down places holding out for a specific school.

What is worth doing is putting a college fund together- current figures put a university education at approx HK$1M in 18 years with higher educations costs rising faster than inflation it is projected to more than double that.

There are numerous ways to save, either from salary or a single amount – we do not know if our children will definitely take up higher education but what we do know is it is 18 years away so we have a time horizon to work with. Worst case scenario you have a lump sum of money at 18 for their first property etc- that is of course if they decide not to try it first and then decide it is not for them.

International schools recruit locally as well as from expat families

Chapter Six

Alternative Investments

Alternative Investments: xxxxxxxx

From 11 years in HK I have also experienced that there are numerous investment opportunities available to us- from land to trees to property to carparks.

My advice on this is to do some due diligence: how long has the company been going? what’s the track record? who are the people who run the company? Due to the nature of these investments there are no regulatory bodies overseeing them so it is vitally important to understand the investment from all angles.

Final Note

Conclusion

Reverse culture shock is a feeling much more subtle, and therefore, more difficult to manage than outbound shock, because it is unexpected and unanticipated

As mentioned earlier, my wife is from HK and I am sure I will be here for at least another 10 years. On the other hand many of my clients have moved on from HK to other jurisdictions. What is vitally important is that you check with your financial planner before you leave the options on your plans. You need to ask yourself these questions:

Are your financial plans portable?
How can you continue to contribute?
How can you be kept up to date on your investments?
Will your advisor be able to continue to look after you once you leave HK?

At Just Service we are using modern technology to make keeping in touch with our clients very easy- client portals they can login anytime, monthly e-statements and mobile apps all keep them up to date with their plans wherever they are.

I hope this has been useful and feel free to contact me on nicholas@justservicehk.com if you have any further questions on anything above or just Hong Kong in general.

Upon Request, our licensed and experienced in house advisors are available to guide you through every aspect of your financial planning from offshore property to tax and QROPS.