

# Protection Needs Assessment

## User guide

Everyone's protection needs vary with one's family background, financial situation and lifestyle. As you step into different life stages, your protection needs will also change.



## What can you obtain from this assessment tool?

### Simplified version: Evaluate your current mortality protection gap

1. The mortality protection gap (MPG) is defined as protection needs of the remaining family members (i.e. the money required to maintain the living standard of the remaining family members) upon the premature death of the breadwinner minus the resources available.



2. To facilitate a rapid assessment, as you answer simple questions about your current income and family status, you can obtain a report on your current MPG in 5 minutes. If you face a MPG, you may consider filling your protection gap with life insurance.

### Example of analysis result - simplified version

**Life insurance**

**Your current mortality protection gap**  
**HK\$1,591,093**

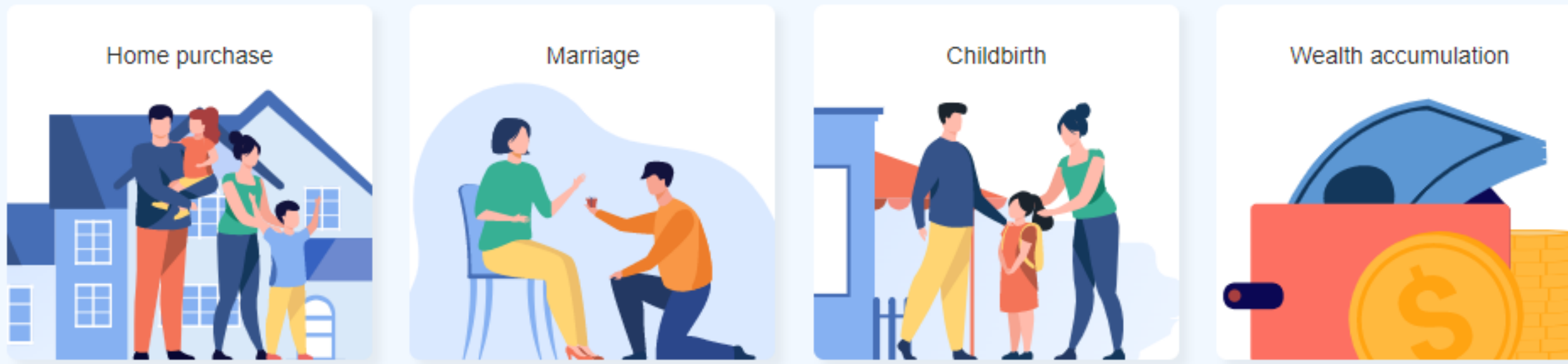
You can consider using life insurance to fill the protection gap

Detailed analysis of current protection gap

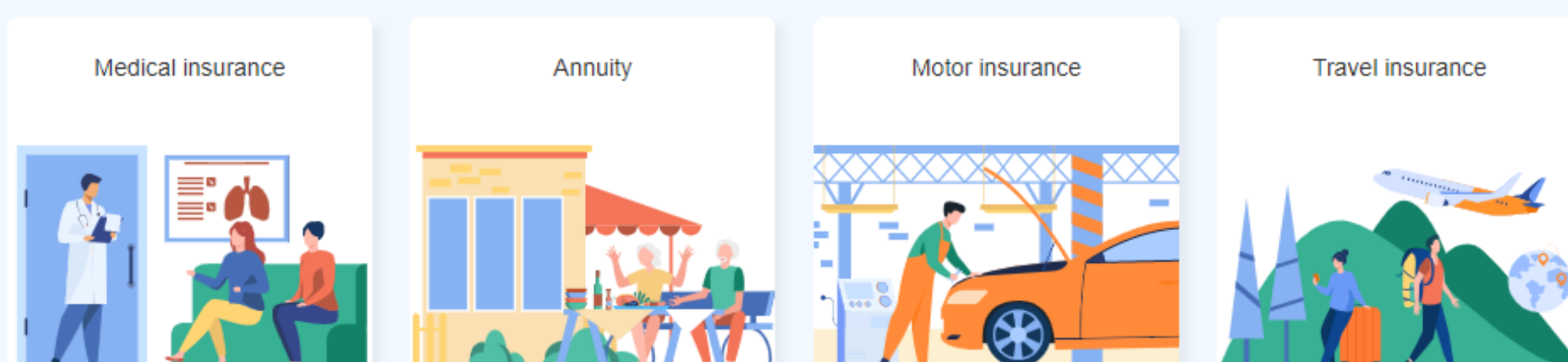
1. Protection needs		HK\$ 3,791,093
• Your share of family burden		HK\$ 3,731,093
General household expenses		HK\$ 5,928,779
Spouse's medical needs		-
Children's medical and education needs		-
Other dependents' medical needs		HK\$ 1,533,408
• Household debts		HK\$ 60,000
Outstanding residential mortgage		-
Credit card advances		HK\$ 10,000
Other personal loans		HK\$ 50,000
2. Financial resources		HK\$ 2,200,000
• Savings		HK\$ 200,000
Pension assets		-
Savings deposits		HK\$ 100,000
Market value of investments		HK\$ 100,000
• Life insurance death benefit		HK\$ 2,000,000

### Full version: Evaluate your MPG in your future journey, and obtain useful information about your needs of non-life insurance products

1. Your MPG will change over time when you make important decisions, and as your financial resources accumulate.



2. Apart from life insurance, you may have other insurance needs, depending on your lifestyle and preferences.



3. In 10 minutes, by answering some questions about your future life planning and lifestyle, you can obtain your projected MPG for coming decades, see when you will face the largest MPG, and obtain useful information about your needs of non-life insurance products.

### Example of analysis result - full version

**Your largest protection gap appears at 36 years old**

At the moment with the largest protection gap, you may need to shoulder:

- General household expense
- Outstanding residential mortgage
- Education and medical needs of 2 children

Afterwards, your mortality protection gap will decrease, under the effect of wealth accumulation and reduction in financial burden (e.g. debt repaid, dependents' future need decreases)

● Largest protection gap will be at: 36 years old  
○ Own a flat: 30 years old      ○ Childbirth: 34, 36 years old      ○ Spouse stops working: 42 years old

**Living-related insurance needs**

	Building structure	Home contents / personal belongings	Personal liability	Domestic helper protection
Your protection needs	✓	✓	✓	✓
Your existing protection	✓			✓
What else do you need?		✓	✓	

Building structure: This covers the cost of replacing the building structure. When reviewing your existing coverage or choosing a new product, consider whether the insured amount is adequate and reasonable, and make sure you understand whether your insurance cover is on an "all risks" basis or "specified perils" basis, which affects the risks covered (e.g. fire).

Home contents/personal belongings: Check whether the policy covers household and personal belongings, and whether there is any geographical restriction. In recent years, a number of products have emerged in the market providing cover beyond the household location. Some even provide worldwide coverage for your belongings.

### Who's suitable for this tool?

Because of the approach and assumptions adopted, this assessment tool is designed for working persons aged between 18 and 65, and the calculation of MPG works best for breadwinners who pay most of the expenses for their families, whose income and expense levels are closer to Hong Kong's average, and for those who finance their family spending within their means (i.e. employment income).

For families with more than one working person, the breadwinner who pays most of the expenses should take the MPG assessment, as this should better reflect the actual protection needs of the family.

If you believe that your situation (such as expenditure pattern and share of responsibility with your family) deviates largely from the others, it is encouraged that you also try out other calculators based on expenditure, and/or consult your professional financial advisors.

### What are the major assumptions and limitations?

To facilitate general use, the Insurance Authority adopted an **income approach** for assessment. Compared with other assessment methods, such as estimating current and future income, the income approach can minimise your input efforts. You only need to input information of current income, family status, and future life planning, and need not estimate and forecast the inconceivable future expense items one by one. As such, the simplicity of income approach helps concluding your MPG quickly.

Employment income is key in our model as the protection needs including household expenses (both present and future), medical expenses and education expenses are thus estimated according to the in-built calculating model with reference to data from government's General Household Survey and Household Expenditure Survey.

It is an important note that you may find the questions asked and the results from this assessment tool different from other similar tools or calculators in the market. It should be mostly explained by the adoption of different assumptions. For example, the MPG results generated by calculators and tools using expense approach would be largely determined by your own estimates and forecast of various future expenses.

**Macro assumptions:** this tool makes assumptions about annual income growth (3.1%), annual investment returns (6.1%), and interest rate (1.9%). As these assumptions can significantly affect the size of the estimated MPG, if you have different expectations, you can change these assumptions in the full version.

**Limitations:**

**Our in-built income approach helps concluding MPG with simplicity. However, the following conditions could drive significant deviation of calculated MPG from real life:**

- Personalised spending pattern:** a large part of future household expense is estimated using AVERAGE ratios of expense to income of typical families in Hong Kong, same as the framework of [the Mortality Protection Gap study](#). Therefore, the assessment results will be more accurate for individuals whose situation is closer to the average situation of the society.
  - For those with spending pattern apparently different from average value of typical families in Hong Kong, results may deviate more from other calculators relying on users' expenditure forecast. For example, you are spending beyond your income, or spending little on your family compared to your income. The latter case may be more prominent for high-income earners.
- Share of responsibility in a household:** This tool assumes that each working individual contributes a percentage of their income towards household expenses. In reality, if there is more than one working individual in a household, the actual share of financial responsibility is likely to be different from that assumed in this tool. For example, if you are in a two-person family with both of you working, if your spouse has high income and pays most of household expenses, your MPG may be notably overestimated and vice versa.
- Household burden from other households:** The estimation of general household expenses is confined to the household in which you are living at. Dependents not living together (e.g. parents) are assumed to depend on you for medical costs only. Therefore, corresponding protection needs may be underestimated.
- Projection beyond retirement age:** The income approach targets working class. The projected MPG beyond retirement age, when you have no employment income, can be seriously over- or under-estimated. Conceptually, your attention is invited to the changing MPG before retirement age, as retirement planning may be more important beyond retirement.