

PREMIER SPONSOR ARTICLE SERIES



Do I have enough to retire comfortably?

How much do you need to spend while in retirement?

Discussions on retirement planning often focuses on expectations of expenses post-working life. This correlates with lifestyles and earning aspirations prior to retirement. Mercer's 2020 street-level survey found those earning HKD20,000+ per month expect to spend an average of HKD25,000+ when they retire. We also observed a difference between age groups - younger group (age 20-34) expect to spend 103% of current monthly income when they retire, while older group (age 55+) expects to spend an average of 83%. The expectations may change if there is a desire to leave an inheritance to their offsprings, particularly there is currently no estate tax in Hong Kong.

Converting that into today's money suggests that an individual retiring today, will need a pension payout of around HKD6.3m for males, and HKD7.5m for females. This is many times the maximum mandatory contributions to an MPF scheme over a full working lifetime, so the gap has to be closed through financial products. Products to address the accumulation phase through sustainable investment returns, and products that allow individuals to 'lock in' a level of assured income while they draw down their wealth.

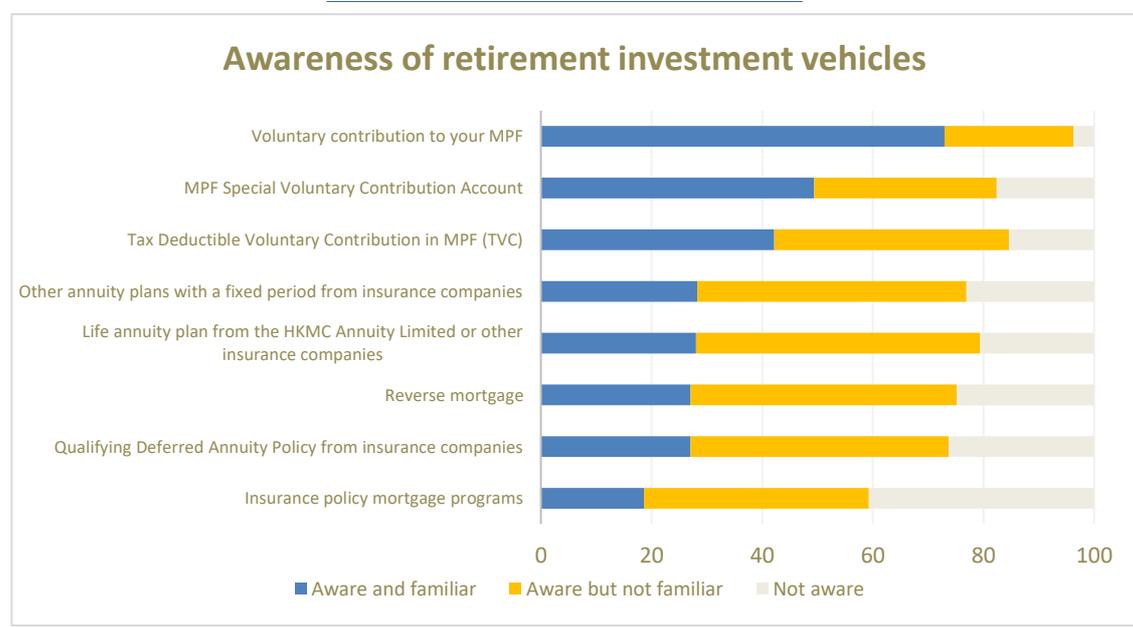
How can you save and invest for retirement?

Respondents to our survey considered bank deposits and company stocks are the top two choices for investing spare income. Interestingly, the choices do not differ significantly by gender and education levels. The traditional reliance on bank deposits (current typical retail offer ~0.5% APR) should be challenged in the low-yield world, as returns are not expected to go far in closing the retirement gap.

Among various retirement vehicles, respondents are more aware of voluntary contributions and tax-deductible voluntary contribution to the MPF. With the 20th anniversary of the MPF system, it would be heartening if the awareness is translated into action, with individuals taking initiative to save more, and review investments with a long-term view.

Respondents are less aware of other vehicles, such as the annuities from HKMC Annuity Limited, reverse mortgage program and insurance policy mortgage program from The Hong Kong Mortgage Corporation Limited. From regular surveys, there is scope to show how these vehicles may fit a conservative risk appetite, and potentially be a solution for retirement plans.

Mercer MPF Satisfaction Index, March 2020



What is your retirement portfolio?

Most respondents expect an average 6% p.a. return from their MPF savings. However, only 17% are willing to accept a 5% loss in any one year. This reflects the risk averse attitude of the general population. This may explain why real estate is a popular investment for Hong Kongers, as capital value is considered 'certain', and the rental income is used to meet expenses. On the other hand, the MPFA 2020 report shows 40% of accrued benefits are invested in equity funds, which are volatile and has a high probability of exceeding a 5% loss, suggesting that investor education can help individual reconcile investment risk and reward.

When considering the regulatory landscape, MPF members may welcome the ability to freely select funds across the whole MPF universe, achieving full portability within the MPF system.

Are you too risk-averse?

More than 50% of respondents would "lower my living standard" or "delay my retirement" if they have insufficient savings to retire. While 22% would "adjust my investment portfolio for higher returns". Differences in their capacity to take risk may influence responses, but we think there is work to do to expand awareness on retirement saving options.

From 1 February 2016, MPF members can withdraw benefits in instalments upon attaining the retirement age of 65. However most respondents, in particular the older group, prefer to withdraw their MPF balance in entirety, hence losing the opportunity for further investment returns. It may be useful to understand if members are reinvesting the pension pot in other vehicles.

The Annuity Market

Respondents with higher income and of higher education levels are more open to foreign currencies, stocks, bonds, funds and annuities. For those who choose to invest in annuity, 77% prefer a term of 5-15 years. This is not surprising, as research has shown that many tend to under-estimate their life expectancy.

Participation in the HKMC Annuity Plan is low with ~4 in every 1,000 individuals at age 60+ joining. The Government introduced a tax incentive for purchasers of the Qualifying Deferred Annuity Policy. Since the annuity product is a type of insurance policy, employers and insurers could leverage the incentives to structure a "group" annuity plan, where the employer is the policyholder while the employee is the beneficiary of the policy.

How much would your retirement plan provide

Almost all employers (98%) surveyed stated that their retirement plan are for staff retention and securing protection in retirement. However, nearly 25% do not know whether their plan is competitive or sufficient. More than 60% employers would seek employee feedback about the retirement plan, but this contrasts with feedback that ~30% employees "don't know" their retirement plan.

Going forward, we believe work has to continue to improve familiarity about retirement planning, through employers, vendors and the Government. We believe financial sector can develop tools that incorporate outcomes from different retirement saving vehicles, together with the ways to access products, with full transparency of fees and terms, to encourage retirement planning.

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The Hong Kong Retirement Schemes Association (HKRSA) was established in 1996 to promote the interests and best practices of retirement schemes in Hong Kong including provident and pooled retirement funds. The HKRSA is a not-for-profit, non-political association, which represents retirement schemes and their members, providing a forum for discussion of issues of current and topical interest.

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