

## PREMIER SPONSOR ARTICLE SERIES

## Lack of access to post-retirement solutions risks leaving Hongkongers out to dry

Manulife Investment Management  
宏利投資管理

New research by Manulife Hong Kong has revealed that around one-third of working people in Hong Kong are likely to invest their retirement savings – including accrued Mandatory Provident Fund (MPF) benefits – in stocks when they retire, exposing them to the risk of high volatility. Manulife's findings underscore the lack of effective post-retirement solutions that offer retirees a regular, stable income stream.

### Your harvest depends on your retirement plan

By the time they retire, respondents expect to have saved HK\$3.97 million. Based on their expected retirement age (63 years old) and the average lifespan in Hong Kong (85 years old)<sup>1</sup>, their average monthly disposable income would be about HK\$15,000 for a total of 22 years during their retirement. However, this is below their HK\$17,633 expected average monthly expense in retirement, which means they either have to delay their retirement, save more, or find additional sources of income.

In fact, over half (52%) of the respondents do realize this issue. To bridge the retirement shortfall, they plan to spend less, seek government subsidies, continue working, or invest into fixed deposits.

Some respondents, however, are prepared to make their retirement savings work for them. About one in five said they plan to invest in annuity products or purchase insurance policies to potentially provide some level of income in retirement or help cover recurring costs such as healthcare.

These respondents are thinking in the right direction, and one way to help them prepare for a comfortable retirement is knowing how to effectively utilize and reap the most benefit from their MPF investments.

After retirement, withdrawing one's MPF investment and putting it in cash savings is not ideal, because inflation will erode their worth. Investing in stocks is not ideal either, as it exposes retirees to volatility risk.

Hence, it is important to think of the best ways to preserve and grow one's nest egg, especially if we expect to live longer than the expected average.

### What do people think of their MPF?

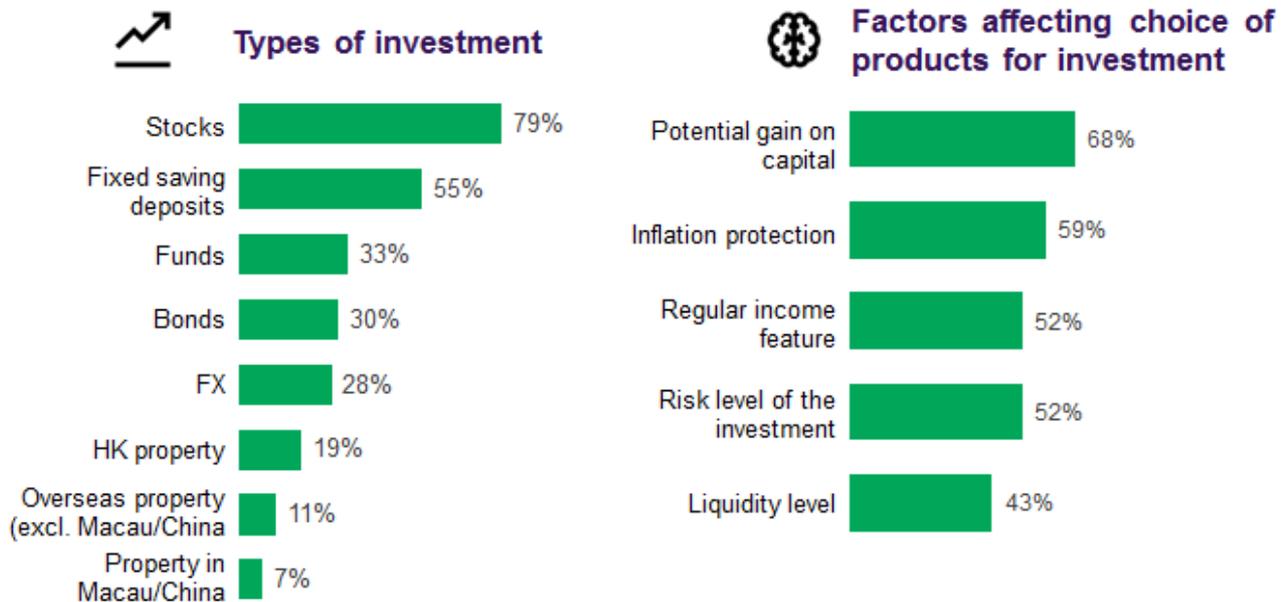
The survey revealed that on average only about a quarter of respondents were happy with their MPF's performance. However, the satisfaction level was much higher among those who review their MPF performance at least once every 6 months. This suggests that those who keep a tab on their MPF accounts may have a higher interest in their MPF investments and may make adjustments to fit their evolving preferences or risk appetite.

The survey also found that more than half of the respondents indicated they would not withdraw their MPF accrued benefits in a single lump sum when they retire, or they have yet to make their decision. And those who have said they would withdraw their MPF benefits are likely to put them in general savings or fixed deposits, investments, or for travelling abroad.

For those thinking of investing, 79% of them would put their money in stocks and the top reason to do so is for potential capital gains, followed by inflation protection and regular income stream (see chart 1).

When asked why they would invest their MPF benefits in stocks, close to half of the respondents think they will eventually make up for the losses if they stay invested long enough. Nearly a third of respondents who admitted to having experienced stock investment losses said they still prefer to put most of their assets into stocks. This type of mentality might put a greater risk for their retirement shortfalls, as they are essentially putting all their eggs in one basket – despite some having dropped the basket before – and potentially without the safety net of a job or income to help recoup the some of the losses.

## Chart 1: Intended usage of MPF benefits among the employed



Source: Survey by Manulife Hong Kong (April 2020)

A7b. You mentioned that you plan to use your MPF benefits for investment after your retirement. Please select the types of investment that you will invest in. Base: Working population who plan to invest with their MPF after retirement (374)

A7c. You mentioned that you plan to use your MPF benefits for investment after your retirement. Which of the below factors will affect your choice of products for this investment? Base: Working population who will invest their MPF after retirement (374)

## What is preferred by investors?

The Mandatory Provident Fund Schemes Authority (MPFA) recently issued its “Principles for Developing Retirement Solutions”<sup>2</sup> (“the Principles”) to assist with the development of retirement solutions under the MPF system to better meet MPF scheme members’ investment needs in both contribution and withdrawal phases.

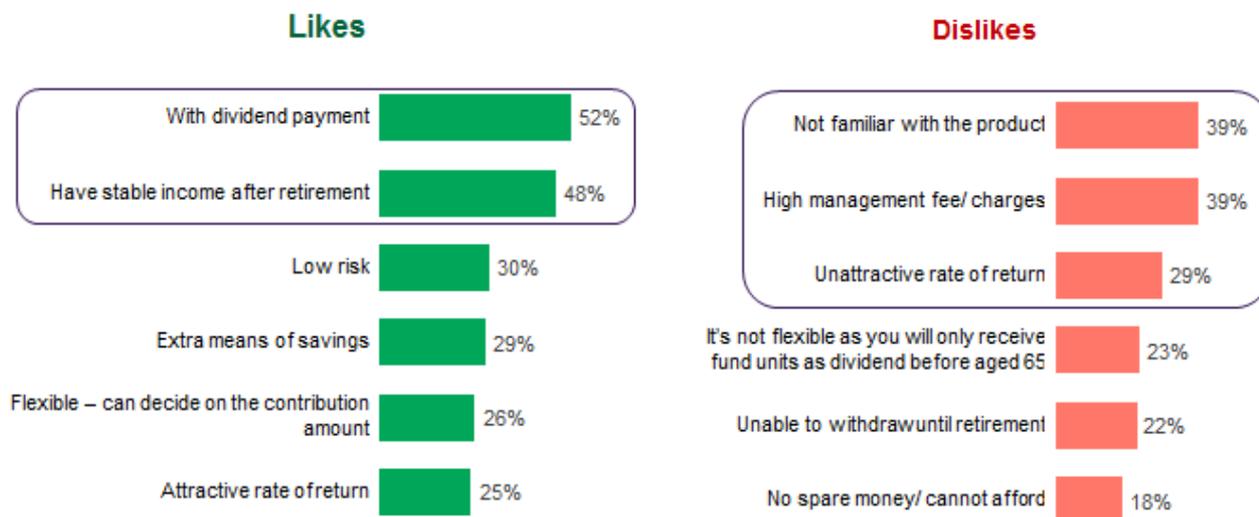
According to the Principles, a retirement solution should be transparent, simple and easy to understand. The expected outcome should be suitable for the contribution and withdrawal phases, while its performance should be reviewed regularly to ensure that it’s in line with the desired outcomes, and fee level should be appropriate.

As such, Manulife is planning to introduce a brand-new solution to our MPF platform in the near future which allows members to stay invested upon their retirement while providing a regular source of income from this investment.

## Case study: What do people consider when they pick an income fund solution?

Our survey also looked into the public’s receptiveness to an MPF post-retirement solution and found that nearly half of all the respondents were keen on adding such a solution to their MPF portfolios. The top three features most welcomed by respondents were dividend payments (52%), a stable income after retirement (48%), and low risk (30%) (see chart 2).

## Chart 2: Retirement income fund concept – likes and dislikes



Source: Survey by Manulife Hong Kong (April 2020)

D2a. What do you like about this New Income Fund Y?

D2b. And is there anything that you dislike about this New Income Fund Y?

Base: All (1,021)

Among those interested in such a post-retirement solution, the majority (77%) said they would re-allocate their existing MPF portfolios to include it, with most (74%) saying they would allocate more than 20% of their portfolios to it. The remainder of this group (23%) preferred to make additional voluntary contributions to include such a solution in their MPF portfolios.

On the flip side, the 15% who expressed disinterest in a MPF post-retirement solution cited unfamiliarity of the concept, perceived high management fees and unattractive rate of return as top reasons for not wanting to participate.

It's comforting to see that Hongkongers do realize the retirement savings shortfall they face, and that most are open to new solutions that can help them stay invested and receive sustainable income during retirement. Nonetheless there is still work to be done as the industry is still in the early stages of developing the most appropriate post-retirement solutions for Hongkongers, and it won't be too long for sceptics to see the true benefits of such solutions.

The survey was conducted from March 31 to April 2, 2020, with 1,021 Hong Kong-based working people, retirees, unemployed and housewives aged 25 or above.

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## Endnotes

<sup>1</sup> Hong Kong Census and Statistics Department 2018

<sup>2</sup> The Principles for Developing Retirement Solutions was issued by the Mandatory Provident Fund Schemes Authority (MPFA) on April 1st, 2020.

### About HKRSA

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.

### About Manulife Investment Management

Manulife Investment Management is the global wealth and asset management segment of Manulife Financial Corporation. We draw on more than a century of financial stewardship and the full resources of our parent company to serve individuals, institutions, and retirement plan members worldwide. Today, plan sponsors around the world rely on our retirement plan administration and investment expertise to help their employees live a better retirement.

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