Fidelity INTERNATIONAL

Stay invested during retirement amidst the retirement income gap

The global pandemic is changing all aspects of our lives. With relentless pressure from city lockdowns, social distancing and the epidemic per se, 32% of the global population felt 'very' or 'extremely' worried, fatigued and stressed during the pandemic, Fidelity Global Sentiment Survey[1] revealed.

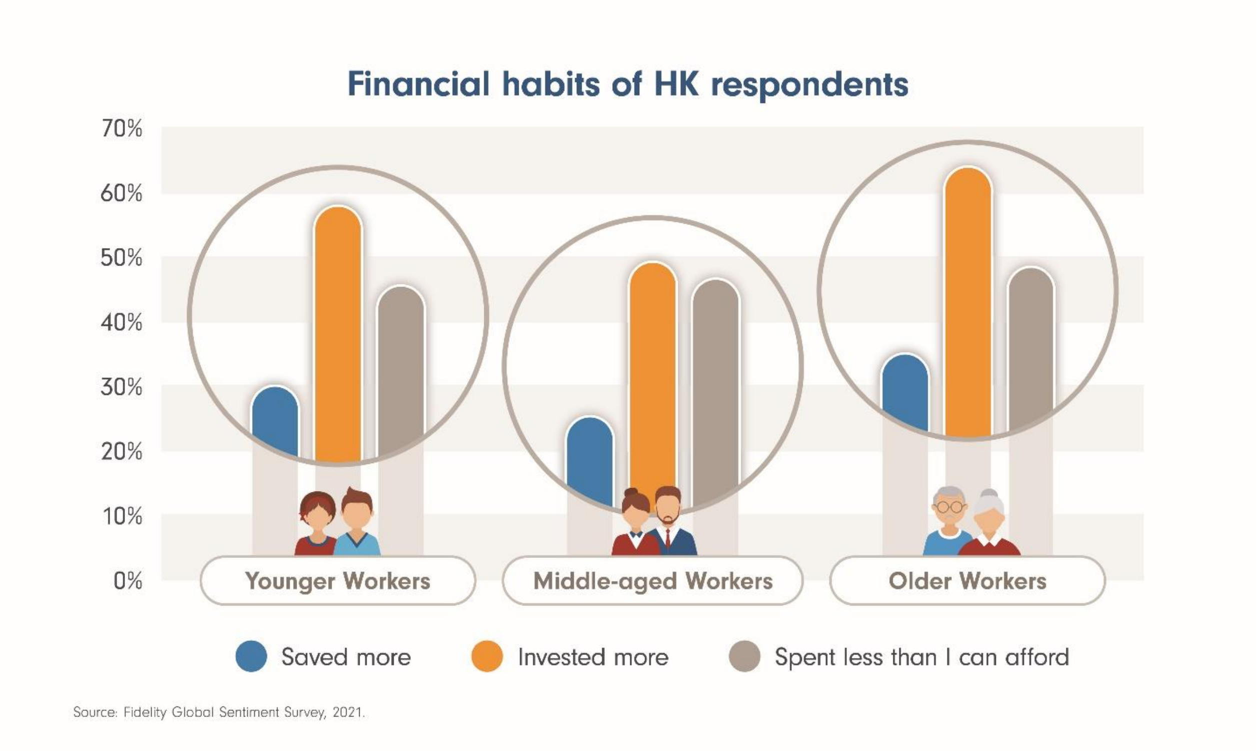
Hong Kong is no exception. The repercussions of the pandemic weighed on 35% and 40% of Hong Kong respondents, who felt 'very' or 'extremely' worried and fatigued respectively, mainly due to loss of income and deterioration of living standards.

But every cloud has its silver lining. Over half of Hong Kong respondents were also positive about the future and towards their health, work/life balance and day-to-day finances. 76% of them were still confident that they could maintain their lifestyle and income.

Older workers spent less and invested more

Given the limitations on going out and participating in leisure activities, being able to spend more time at home and saving more were the biggest drivers of positivity. Nearly half (47%) of Hongkongers claimed that they spent less than they could afford, and ultimately one-third (30%) said they had increased their savings.

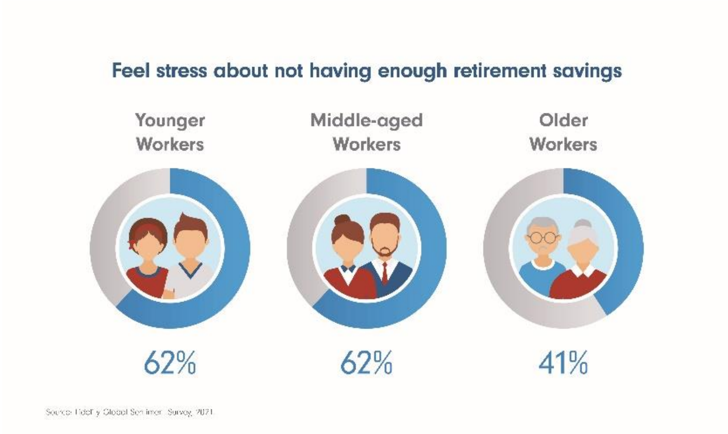
It is interesting to note that 48% of older workers[2] reported they had spent less than they could afford and 35% had increased their savings, compared to younger and middle-aged workers. Having spare money and seeing investments generating more returns than saving alone may encourage older workers to actively invest, with 64% of them reported that they had increased their investments during the pandemic.



Dreading the retirement income gap

35% of older workers saved more for their retirement as two-fifths felt stressed about not having enough retirement funds. Their trepidation in fact is reasonable. The life expectancy of Hongkongers has steadily increased over the past half-century and is nearly 83 years for men and 88 years for women in 2022[3].

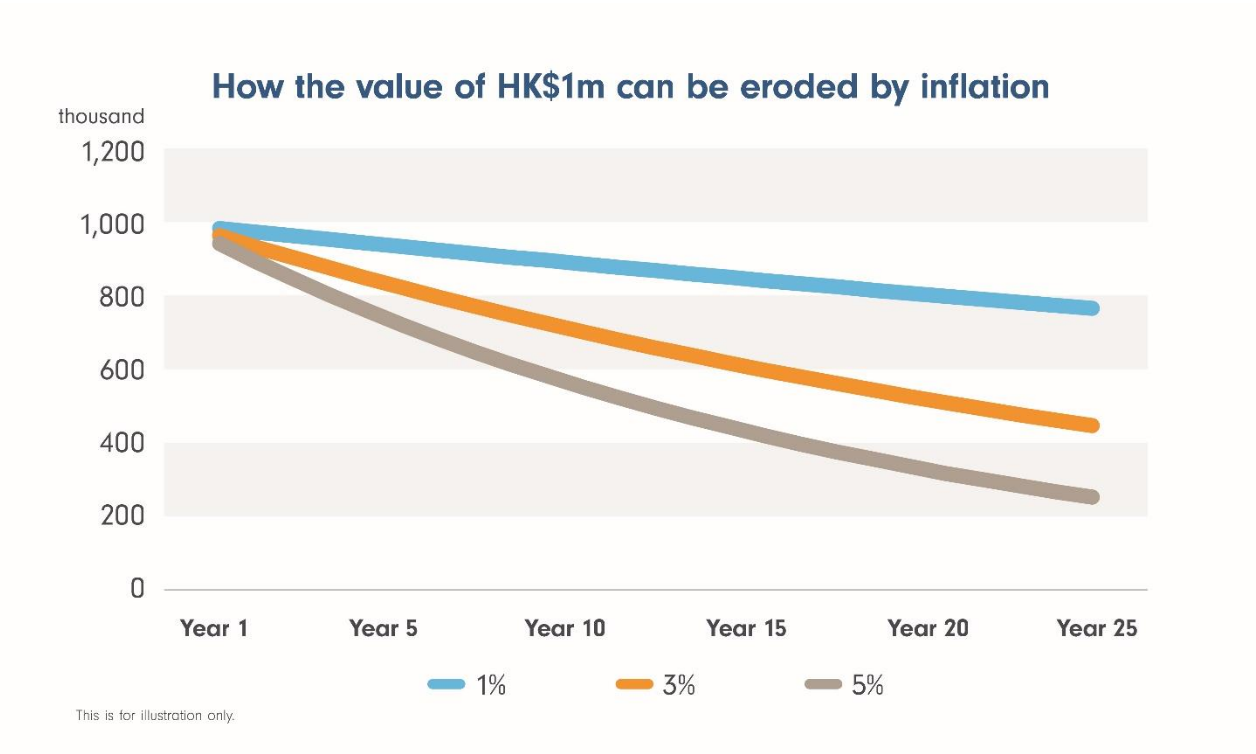
A longer life span entails more expenses and higher possibility of retirement income gap. Census[4] data indicates an average retired couple in Hong Kong generally spend a total of HK$25,151 per month. Assuming retirement at age 65 and 20 years of retirement life with inflation unchanged, a retired couple needs around HK$6 million (HK$25,151 x 12 x 20) to cover 20 years of retirement life. This is not a small lumpsum and different surveys[5] reveal the median retirement shortfall in Hong Kong would be up to HK$2 million.



Stay invested to create retirement income potential

To avoid outliving their nest egg, retirees should recognise the importance of keeping their pension savings invested. If retirement savings are left alone without any investment, the capital can depreciate and purchasing power might erode in the long term due to inflation.

The following graph illustrates how the value of HK$1 million can be eroded by inflation of 1%, 3% and 5% over 25 years. In the worst-case scenario, if inflation were to average 5% a year over a 25-year period, HK$1 million would drop significantly by 73% and only be worth HK$270,000 after 25 years.



One of the best ways to mitigate asset depreciation is to remain invested to capture investment returns that counter inflation and maintain asset value.

MPF retirement funds that have emerged in the market recently can be one of the solutions to help retirees address asset depreciation and inflation challenges. These funds are generally mixed asset funds that invest in a mix of less volatile assets to seek higher returns while preserving the capital.

If we refer to the performance of mixed asset funds over the past two decades, after fees and expenses the annualised return is 4.7%[6], outperforming Hong Kong's inflation rate of 1.8%[7] over the same period.

In addition, to better manage accumulated pension assets and make savings last, nowadays retiree can also choose to utilise digital e-withdrawal platforms to keep part of their retirement savings invested for further growth, whilst receiving regular withdrawals in their desired amount to meet retirement needs flexibly.

Footnote

[1]The Fidelity Global Sentiment Survey was conducted in August 2021 across 16 markets, looking at 19,000 adults' sentiment in the past six months and coming six months. For the Hong Kong survey, it includes 1,000 respondents whose household monthly income is at least HK$15,000.

[2]Younger workers, aged 20-38; Middle-aged workers, aged 39-54; Older workers, aged 55≥.

[3]Source: Life Expectancy at Birth (Male and Female), 1971 - 2020, Department of Health.

[4]Source: 2014/15 Household Expenditure Survey, Census and Statistics Department, Government of the Hong Kong Special Administrative Region.

[5]Source: Affluent have own retirement woes, 2020, The Standard.

[6] 4.7% refers to the statistical summary of the Mandatory Provident Fund scheme issued in March 2021 for the annualised return (net of fees and charges) of the Mixed Assets Fund under the component fund since December 2000.

[7]Source: Bloomberg – the average consumer price index in Hong Kong from June 2001 to June 2021 was 1.8%.

About Fidelity Global Sentiment Survey

The sample consisted of respondents with the following qualifying conditions: Aged 20-75; either they or their partners were employed full-time or part-time; A minimum household income of: Australia: A$45,000 annually; China: RMB 5,000 monthly; Hong Kong: HK$15,000 monthly; USA: US$20,000 annually; Canada: CA$30,000 annually; UK: £10,000 annually; Mexico: $4,500 MXN monthly; Ireland: €20,000 annually; Germany: €20,000 annually; Netherlands: €20,000 annually; France: €20,000 annually; Italy: €15,000 annually; Spain: €15,000 annually; Japan: ¥3,000,000 annually; Brazil: R$1,501 monthly; India: ₹55,001 annually. The survey received 19,000 global respondents, with 1,000 respondents from Hong Kong.

The data collection, research and analysis for the above markets was completed in July/August 2021 in partnership with Opinium, a strategic insight agency.

Disclaimer

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.

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