Manulife Investment Management
宏利投資管理

Time to build a plan that secures financial freedom and legacy in retirement

- *New survey shows Asians have retirement aspirations, but many fail to plan or consult an advisor*
- *Navigating inflation cycle effectively is critical to retirement savings outcomes*

By Calvin Chiu, Head of Asia Retirement, Manulife Investment Management

How much savings do you think is sufficient for retirement? To live comfortably in silver age, your goal should not be merely to accumulate assets. Prioritizing financial planning and leaving a financial legacy for your children and grandchildren should also be considered to achieve financial freedom during your retirement years. However, it is the truth that failure to seek professional help early on is a missed step for most people as they plan and review their options for achieving their wealth goals.

As we start looking towards the future after a difficult couple of years, families need to plan ahead in order to ensure they stress and worry less about their retirement, children's education, and legacy planning. However, according to a survey[1] recently commissioned by DBS and Manulife, couples are more likely to prioritize travel planning (45%) over their finances, while only 32% of Hong Kong couples have discussed holistic financial plans, indicating that the remaining two-thirds of couples do not have a plan in place for their future (see Chart 1).

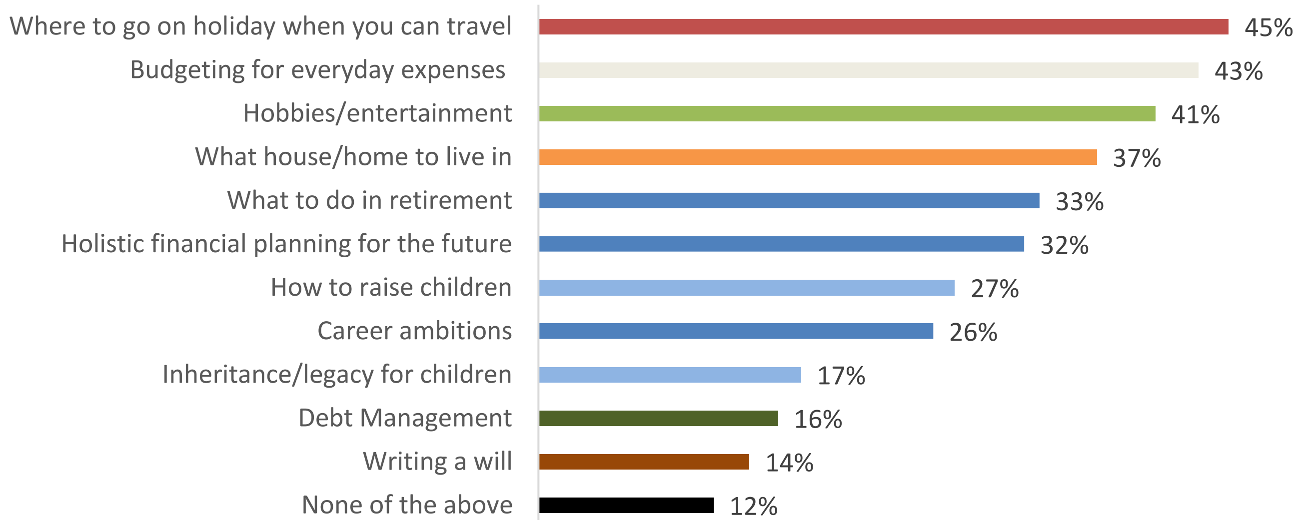
Lacking financial and legacy plans for the future

Every life stage brings different priorities that require different investing approaches and strategies. Families may think of exercising prudence, investing some of their savings on a regular basis, to reach their life goals in Hong Kong or abroad. Planning early will allow families to grow their long-term wealth that can be passed on to the next generation.

Another interesting finding is that 62% of parents plan to leave a financial legacy for their children. Those who have made plans intend to leave on average 65% of their wealth to their children. When initiating a legacy plan, only a quarter of parents said they had spoken to a financial planner about how to build wealth and who will receive it, with just 14% having found a way to minimize taxes when leaving a legacy. It's notable that although a majority of more than 60% have legacy planning in mind, far fewer people are acting now to build a legacy.

Chart 1 - Only 32% of couples have discussed holistic financial plans

Have you had discussions with your spouse or partner on…



Do you think that you have had sufficient discussions on the following with your spouse or partner?
Base: those with partners (n=1174)

Seeking professional advice early

In terms of their biggest life goal, achieving financial freedom is cited as the main life goal for 63% of all respondents in Hong Kong. And here again, there is a discrepancy among Hong Kong citizens between their expectations for long-term financial freedom and actual financial planning.

The same holds true when asked if they have sought professional advice. A third (33%) of Hong Kong residents said they have never consulted a financial advisor for professional advice. This survey may indicate that seeking professional advice to plan and align with wealth goals is an inevitable part of overall financial and retirement planning.

While the pandemic has upended the way we live and work, it has also prompted the world become more interconnected than ever. It is increasingly important to maintain international financial capabilities to prepare for any opportunities that may arise. The right financial plan can help individuals gain flexibility and diversification needed to access a wide range of asset classes for long-term wealth accumulation.

Planning for retirement with inflation in mind

Another important factor to consider when planning for retirement is inflation. It's extremely difficult to control inflation or to accurately predict how it will rise in the future, but investors should not underestimate its destructive effects – even a slight increase compounded over the years can lead to a heavy burden in retirement. Younger people are affected most because they are further away from retirement age, which means high inflation erodes their purchasing power over a longer period.

According to Manulife Investment Management's calculations, with inflation on the rise, investors may need to postpone retirement to accumulate enough savings to cover their post-retirement expenses. For example, looking at three investors aged 25, 45, and 65, respectively, who all retire at age 65 and have the same annual expected expenses after retirement, it found that:

- A 40-basis point increase in expected inflation will result in a 21%, 13%, and 5% increase in retirement costs, respectively.
- If expected inflation increases by 100 bps, retirement costs will increase by 53%, 33%, and 13%[2], respectively.

Given the example above, the three individuals may have to immediately increase their savings in their retirement portfolios to offset the effects of inflation, so that they can withdraw the predetermined amount of real inflation-adjusted income each year.

Investors should consider inflation if they are to ensure an investment appreciates over the years. If they do not have spare or ready cash or choose to ignore inflation, the purchasing power of their assets will be heavily discounted in the future. An investment portfolio's rate of growth should keep up with or even exceed inflation. As young investors will not be retiring soon, they can tolerate a higher level of risk. Therefore, their portfolios may focus on assets with a greater potential return, in order to general real return on top of inflation.

[1] The survey was conducted from 25 January to 14 February 2022 and polled 1,409 respondents in Hong Kong aged between 21 and 65.

[2] Manulife Investment Management calculations, as of 1 February, 2022. This is a hypothetical mathematical illustration only. This is under certain assumptions about real interest rates and asset class returns of the multi-asset solutions team. Figures are based on assumptions as set out, and individual circumstances and objectives may vary.

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 brand for 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. Headquartered in Toronto, our leading capabilities in public and private markets are strengthened by an investment footprint that spans 19 geographies. We're committed to investing responsibly across our businesses. Today, plan sponsors around the world rely on our retirement plan administration and investment expertise to help their employees plan for, save for, and live a better retirement.

Disclaimer