Manulife Investment Management
宏利投資管理

Hongkongers face the greatest balancing act of their lives

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Hong Kong is renowned for its vibrancy and diversity, which has spawned many options for people to pursue the lifestyles they want. However, sustaining their preferred lifestyles, especially into retirement, is a major challenge, given the prolonged low interest rate environment that adds almost nothing to their wealth, and generating reliable investment returns appears to be getting more difficult by the day.

According to a new retirement survey from Manulife Hong Kong, almost a third of Hongkongers said their financial priority at the moment is to save for retirement, and that maintaining good health and current living standards, and attaining “financial freedom” are top priorities for an ideal retirement.

To achieve that, people in Hong Kong will need to conduct the greatest balancing act of their lives, now.

Are Hongkongers really ready for retirement?

To investigate the retirement readiness of Hong Kong people, especially as we are in the second year of a global pandemic, Manulife Hong Kong conducted a survey[1] between June and July 2021 that interviewed 1,034 people in the city to learn more about their plans and preparations for retirement, as well as their savings priorities and concerns.

It found that Hongkongers have an average target retirement age of 62, but only 41% of respondents are confident of retiring by their desired age, with a majority of respondents fear for their health and finances upon retirement.

In addition, over half (58%) of the respondents who have started retirement planning are positive about retiring by their target age, compared to only 29% for those who have not started retirement planning. Unsurprisingly, respondents who have already commenced their retirement planning tend to be more confident in retirement going according to plan, as compared to those who have not started.

When asked about worries, respondents indicated deteriorating health (54%) and not saving enough upon retirement (39%) as their top concerns.

Save, budget, invest (early)

The pandemic has caused people to pay closer attention to their health. Many have become passionate about weight control and achieving the ideal body shape. However, they should also think about the ideal shape of their income and expenditure curves, which could help them save, budget, and invest for retirement.

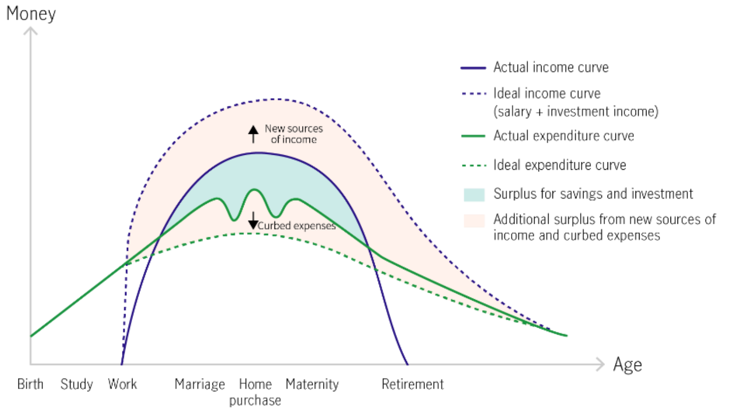
We describe below the actual and ideal versions of the income and expenditure curves. In reality, when a person earns enough to cover any expenses and is financially prudent throughout their working life (around 30 to 40 years), they could have surplus cash for savings and investments (see Chart 1, the portion where the income curve lies above the expenditure curve, as highlighted in light blue).

However, the crucial question is: Without a regular income, will the surplus be enough to support your living costs during retirement?

Ideally, both the income and expenditure curves should be reshaped. Particularly, the income curve should become steeper, with investment income helping extend its end point beyond retirement. And if you spend less, the expenditure curve should be flatter and remain below the income curve, even after retirement.

[1]Source: Manulife, Manulife Retirement Solution Survey 2021

Chart 1: Shaping the ideal income-and-expenditure curves



For illustrative purposes only. The chart does not represent the income and expenditure of any individual.

It is crucial to create a higher surplus by widening the income and expenditure gap (see Chart 1, the portion where the ideal income/actual expenditure curve lies above the actual income/ideal expenditure curve, as highlighted in light pink), paving the way for an ideal and relaxed retirement.

A healthy income and expenditure curve is imperative in managing one's cashflow, and more importantly, in helping extend its end point after retirement. This corroborates with the findings of Manulife's latest survey that many Hongkongers perceive passive income as a vital source to sustaining their retirement life.

More than half expect passive income in their retirement

Defined as a regular income that requires minimal effort to maintain, passive income is often perceived as a key avenue to achieving financial freedom. The Manulife Hong Kong survey revealed that over half (54%) of respondents believe they will have passive income when they retire. Among those who are expecting passive income in their retirement, high dividend stocks (60%), annuities (40%), income funds (39%) and rental income from property investments (38%) are they key sources of income. These respondents generally believe their passive income will be able to cover 45% of their total retirement expenses.

Acquiring passive income is key to sustaining a desirable life during retirement. More importantly, planning ahead to secure various sources of funds will enable retirees to maintain pre-retirement living standards, cover health costs or unexpected expenditure, and enjoy life without being stressed about money.

It's never too early to start investing

Given that retirees today are likely to live longer, preserving and growing a nest egg in the pre- and post-retirement period is essential. The key is to accumulate sufficient wealth prior to retiring – but not put those funds into cash savings after retirement, because inflation will over time erode them.

In order to hedge the growth of costs in the future, people should start saving early – and, most especially, they should invest early.

There are two key reasons for this. Firstly, because the sooner one starts to save, the lower the probability of a shortfall. Secondly, because the sooner one starts to invest into an asset allocation portfolio, the more time for their investments to grow (don't forget the power of compounding).

That underpins our core advice to avoid shortfalls in retirement:

1. Start early, try to invest more, and don't be too conservative with your asset allocation – i.e., during the early years of the accumulation phase, invest aggressively, particularly in the pre-retirement years, in order to benefit from capital growth and dividends.

2. Seek income and downside protection, to de-risk your portfolio and cushion the impact of a down market in some context.

3. Beware of holding a lot of cash, rather, consider putting your savings into investments. An earlier Manulife Investment Management study[2] found that if the retirees in Hong Kong withdrew the accumulated wealth in their portfolio when they retire and hold it in cash, there is a high risk that their savings would deplete in a decade. In other words, it is essential to stay invested even after retirement.

Similar to the vibrancy and diversity of Hong Kong, people in the city should take an active and diversified approach to their retirement planning so to achieve their preferred lifestyles during retirement.

[2]Source: Manulife Investment Management, Asia Thought Leadership Series, Retirement Issue 2.

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. 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.