Kenanga Investors

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The New Blueprint for Retirement

The Edge – Personal Wealth (21 December 2015)

By: Tho Li Ming and Kuek Ser Kwang Zhe

We cannot view retirement through rose-tinted glasses anymore. Retirement is no longer about sipping cocktails on the beach, but about working hard a fund a longer time spent in retirement, and then worrying whether we have enough savings for the rest of our lives.

The rising life expectancy of Malaysians creates longevity risk not just for insurance companies and pension funds but also for the retirees themselves, who will need to ensure that their savings outlast them.

The ageing population is growing rapidly in many parts of the world. This is mainly due to a slowdown in the growth of the general population, brought about by declining fertility rates. According to a United Nations report, *World Population Prospects: The 2015 Revision*, which was released in July, the number of those aged 60 and above is expected to more than double by 2050 and more than triple by 2100.

"A significant ageing of the population in the next several decades is projected for most regions of the world, starting with Europe where 34% of the population is projected to be over 60 years old by 2050. In Latin America, the Caribbean and Asia, the population will be transformed from having 11% to 12% of people over 60 years old today to more than 25% by 2050," according to the report.

To compound the issue, life expectancy is poised to rise further. The same report projects life expectancy to increase from 70 years between 2010 and 2015 to 77 years between 2045 and 2050, and to 83 years between 2095 and 2100. Life expectancy in places like Asia, Latin America and the Caribbean are expected to rise 13 to 14 years by 2095.

"Such increases are contingent on further reductions of the spread of HIV and combating successfully infectious as well as non-communicable diseases," says the report.

According to the World Health Organisation (2013 data), the average life expectancy of Malaysian men and women is 72 and 76 years respectively.

The world is changing. It is no longer feasible to compare our future with that of our parents, says Brigitte Miksa, head of international pensions at Allianz Asset Management AG. The conditions today are no longer just about the decreasing number of children in a family but also the higher labour force participation of both men and women. This is an issue she has observed in many Asian countries.

"We see this in many countries, like China, with its one-child policy. For the rest of Asia, it is not the one-child policy, but due in part to the increasing educational status of women and higher labour force participation by both men and women," she says.

"There is less time available to care for children and the elderly in the family. But at the same time, this kind of caring for each other is not possible if all the adults are in the workforce. Who takes care of the children and the elderly, who are the dependents?"

To address the retirement savings shortage, the time spent in retirement will have to be shortened as well, says Miksa. This means more people will be working longer.

"The retirement entry age is going to increase as people stay longer in the workforce. [But this is not a bad thing as it] is also in the interest of the economy. If you drop out of the workforce so early [together with a declining fertility rate], the economy will see a productivity loss that may not be compensated by technologically driven productivity increases."

While Malaysia's retirement age was increased to 60 from 55 two years ago, many workers still feel they can work beyond that. The Randstad Workmonitor first quarter 2015 survey, released in March, revealed that 76% of employees believed they would have to work longer than the current retirement age.

For a country like Malaysia, which also favours eco nomic growth, encouraging the workforce to work for a longer period will help alleviate the government's burden in supporting pension payments, says Miksa.

"The government policy here in Malaysia will potentially favour economic growth. Also, the government will have an interest in increasing the retirement entry age because it also means that it can increase the sustainability of pension payments," she says.

"You have got to be able to afford a long retirement. If you retire at 55, and you have a life expectancy of 74, that is 20 years in retirement. Who is going to pay for that? It is the same old question, to which the answer is: either be born wealthy, inherit wealth, marry wealth or work to be wealthy."

To survive and adapt, there is a need to prioritise and make difficult choices. This applies particularly to segments of the population who have multiple dependents to care for at the same time, such as their elderly parents and children. This group, better known as the sandwich generation, find that they have competing financial needs and priorities. They would need to adhere to the core financial planning principle of delayed gratification, says Rajen Devadason, a Securities Commission licensed financial planner with Manulife Asset Management Services Bhd.

"They need to underspend to generate consistent cash flow surpluses to save and invest over the long haul to fund a potentially long retirement. The factors you have mentioned are competing for a share of finite resources stemming from active employment and business income," he adds.

They will need to make difficult choices when it comes to what to do with their funds. "Hard choices need to be made, such as perhaps driving a smaller, older car for far longer than your friends deem appropriate, or purchasing a more modest home to live in than you can afford outright so as to have the ability to purchase nicer residential properties for others to occupy while

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paying you rent! This is one reason (there are, of course, many others) why I choose to live in Seremban and collect rent derived in Damansara Heights than to have it the other way around," Devadason says.

MORE EMPHASIS NEEDED ON LONG-TERM CARE

As individuals take up the mantle for their own retirement, the issue of long-term care will become even more important than before. Long-term care encompasses services and products that provide health and personal care to those with chronic illnesses or disabilities.

These include medical services and long-term care insurance, which provide living expenses for nursing homes. Miksa, who has bought elderly care insurance herself, understands the problem better than most.

"You are going to face this issue if family can no longer be the hub of social care for the dependents, the young children and the elderly... I have elderly care insurance because I must take into account the fact that if I can't take care of myself, there will be no children to take care of me. Not because they don't want to, but because they have to be in the workforce.

In the next 35 years, the old age dependency ratio of Malaysia will triple (to about 25% by 2050).This ratio, according to the World Bank, refers to the size of the elderly population compared with that of the working population, aged 15 to 64. Miksa says that while the absolute figure is lower than in other countries such as Taiwan and Japan, the ratio is still something that requires consideration.

So, as Malaysia's ageing population grows, healthcare and elderly care become more important than ever. Miksa gives a personal example. Her father had suffered a stroke, so her mother had to care for him and his needs as she still needed to work. "I wouldn't be able to work and have my father with me if my mother had not been able to take care of him. So this is the problem. You need an institution or somebody to take care of your loved ones. In Europe, we look for somebody from Eastern Europe because they are looking for jobs and we are looking for someone who can care for the elderly.

"The elderly care homes are very expensive. And if you find somebody from Eastern Europe to live with your elderly parents, it may be half the cost. Some actually send their parents to Thailand because it has specialised institutions for people with dementia, assuming that the people with dementia are not missing their home country. There, they have an environment where one person takes care of the elderly. In Europe, you have one person taking care of 10 elderly people."

On the local front, some companies have taken steps to address the issue of long-term care. In October, K&N Kenanga Holdings Bhd and Aged Care Group Sdn Bhd announced their collaboration to address the need and support the provision of affordable and quality aged care services. Along with Aged Care and other partners, Kenanga will introduce new options for retirement, such as the upcoming CareTRUST. When launched, the product will allow individuals to allocate a portion of their personal, PRS or EPF savings or investments to "Care Trustees", who will manage the funds allocated to their future retirement care, such as daycare centre fees, nursing home fees and retirement resorts. It also includes payments for consumables, care equipment and medical expenses.

At the recent Retirement and Aged Care conference, Kenanga Investors Bhd CEO and executive director Ismitz Matthew De Alwis described CareTRUST as a one-stop solution that will assist clients in managing their fund accumulation before and after retirement. De Alwis said the collaborators include 12 unit trust companies, more than five insurance companies and a number of PRS providers.

TAKING OWNERSHIP OF RETIREMENT SECURITY

In September, the Global Aging Institute (GAI) and Prudential Corp Asia released a study on retirement attitudes and expectations in East Asia entitled *Challenge to Opportunity: Wave 2 of the East Asia Retirement Survey*. The survey found that citizens in East Asia (including Malaysia) are highly concerned about their retirement security and know that there should be less dependence on the family to provide for the elderly. In countries like Malaysia, Indonesia, Vietnam, China, the Philippines and Thailand, a large number of the respondents (between 43% and 66%) felt that the government should assume the primary role in retirement security. This is in contrast with countries like South Korea, Singapore, Hong Kong and Taiwan, where many respondents (between 40% and 61%) said the retirees themselves should be responsible for their own retirement income.

According to GAI founder and president Dr Richard Jackson, the findings show that retirees in East Asia find themselves at a difficult juncture. "Traditional family support networks have been weakening, yet adequate government and market substitutes have not been put in place. The result is growing economic vulnerability. The retirement outlook for today's workers is brighter in most markets, but still highly uncertain. Across East Asia, workers are very anxious about their retirement prospects, but are also very eager to improve them."

Gradually, we see individuals taking ownership of their retirement assets. The report says a rising number of workers expect to receive income in retirement from financial products such as insurance, annuity products, stocks, bonds or unit trust funds.

"In China, Hong Kong, Malaysia, Singapore, South Korea, Taiwan and Thailand, between 60% and 80% of workers expect to receive income from these financial assets," it says.

This makes it more imperative for government policymakers to close the retirement gap, such as by improving "the adequacy of state pension systems, encouraging or requiring workers to save more for their retirement, establishing more robust floors of old-age poverty protection and raising retirement ages, and encouraging longer work lives".

According to the report, financial service providers should "satisfy public demand for financial products that convert household savings and lump sum pension payments into retirement income streams".

Some companies have taken heed by introducing various products aimed at alleviating the burden of retirees. Jason Chong, CEO and managing director of Manulife Asset Management Services, cites as an example the Global Dynamic Asset Allocation Fund, an investment-linked fund with low volatility that provides regular payouts.

"Investors want steady returns and payouts, but a lot of investment products are very volatile, so we have the Global Dynamic Asset Allocation (GDAA) fund. It is a global product that aims to provide regular payouts. We can invest in equities or bonds and it can be in any part of the world and in many asset classes," he says.

"The idea is, the older you get, the less volatility you can stomach. But we know you cannot eliminate volatility [entirely], as the world moves in cycles. There's the year of recession and ups and downs.

"Let's say a global recession like the 2008 financial crisis happens, we may avoid investing in equities and switch to bonds, commodities or whatever asset class that we think will appreciate. The idea of the product is to give a steady return and a regular payout every quarter or six months. So, for a retiree who does not want volatility, these are products you can look at."

Insurance products have also evolved. While some may not necessarily target seniors, they will help reduce the financial burden of those saving for retirement. According to Chong, one such product is the Manulife Cover-Me-Again, which covers policyholders twice against the same critical illness.

"Typically, the first time a policy holder is diagnosed with cancer, there will be a payout. But after that you can't get insured anymore. But here we will still insure you. So, these are some of the innovative products we have come out with. When we introduced them last year, no one else was offering products like these," he says.

Prudential has also come on board by introducing PRUSenior Med, a term life insurance policy that covers medical bills for hospitalisation for those aged between 45 and 80. The plan requires coinsurance of 10% and covers ICU charges, surgery fees, anaesthetist fees, home nursing costs, outpatient kidney dialysis bills and outpatient cancer treatment

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