香港退休計劃協會
The Hong Kong Retirement Schemes Association
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bct 銀聯集團

Are you heading to a comfortable retirement?

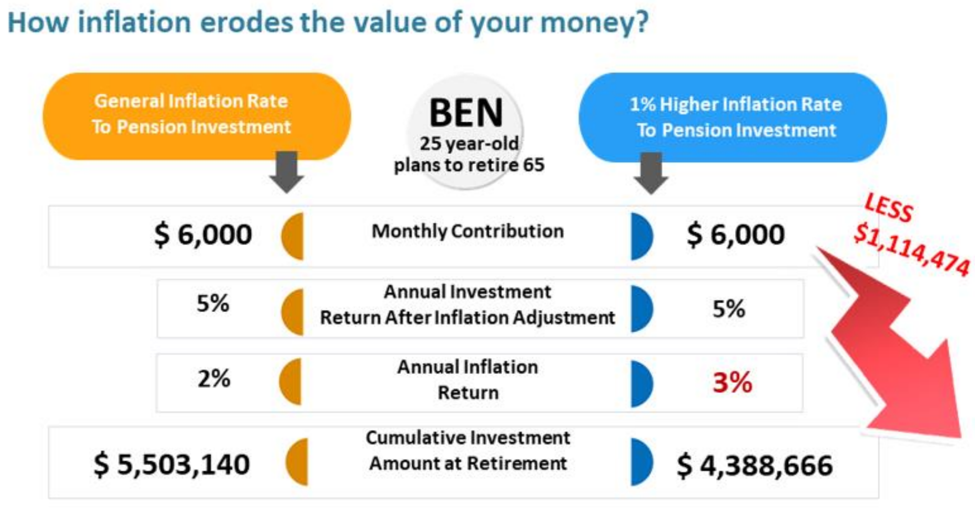
To reach the ultimate goal of financial freedom for our retirement years to be as comfortable as possible, the key lies in effective retirement planning. People nowadays who are saving for retirement are facing challenges which our previous generations did not have to worry about. The way we prepare for retirement has changed. What are the three often ignored risks that impact our retirement goals and how can we respond to them?

Inflation risk - the need to build an inflation hedge around retirement

Inflation has been all over the news this year. In the U.S., inflation hit a 40-year high of 8.5% in March. The inflation rate is also on the rise in Hong Kong due to the steeper increase in prices of imported items as a result of heightened geopolitical risks and logistics bottlenecks.

Below is an illustration of how inflation erodes the value of our wealth (Figure 1). Take a 25-year-old young man who plans to retire at the age of 65 as an example. For the same amount of monthly contribution with the same annual investment return rate, a mere 1% increase in inflation rate will lead to a drop of as much as an alarming amount after inflation adjustment of one-fifth of the total cumulative investment amount when reaching retirement. Inflation, is quite simply, the enemy of our retirement savings. Hence, our retirement wealth will need to grow to at least at par with inflation to retain real purchasing value.

Figure 1 How inflation erodes the real purchasing value of your money



Source: BCT / $ in HKD. For illustrative purpose only.

Longevity risk - it compounds the inflation risk affecting your retirement income

With advancement in healthcare technology, life expectancy is higher than ever and we are living longer than anticipated lifetime as compared with our previous generations. According to The Hong Kong Monthly Digest of Statistics published by the Census and Statistics Department, there is an increasing trend in the life expectancy for males and females in Hong Kong (Figure 2). The challenges faced by retirees today is whether we are financially sound during the prolonged retirement years, not to mention the health spending as we age. This is especially true for Hong Kong as both women and men are leading the world in life expectancy (Figure 3).

Figure 2 Life expectancy at birth (male and female), 1971 - 2020

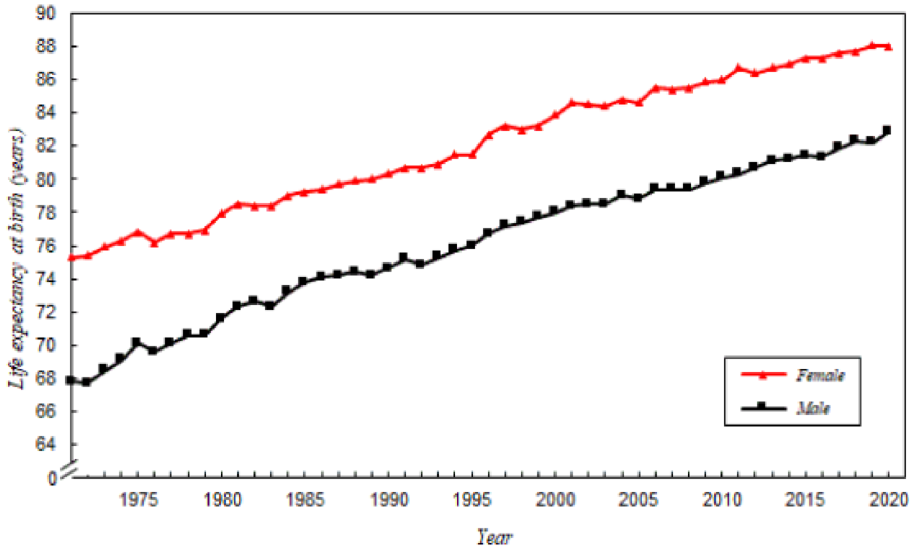


Figure 3 Hong Kong ranks the top in life expectancy

Women			Men
Hong Kong	88.14	Hong Kong	82.71
Japan	87.74	Switzerland	81.90
Korea	86.30	Japan	81.64

Source: "Life Expectancy in 2020" published by the Japan's Ministry of Health, Labour and Welfare in July 2021

If we start working at 20 years old and retire at the age of 65, are we able to save enough in more than 40 years of working to support ourselves for another 20 years or more of retirement?

As our retirement income is subject to inflation risk, we need to have a smart lifetime income plan for our savings to last.

Investment risk – market volatility can be detrimental to our retirement plan

The value of our investments is influenced by various factors including economic activities, capital markets, and government policies. This explains the volatility of the financial market early this year as a result of the war in Ukraine and the COVID-19 pandemic. At times when the market fluctuates drastically, a sudden market downturn can adversely impact the investor's savings pool. As we are closer to retirement, a balanced portfolio with moderate growth can help generate a sustainable income stream while protecting retirement assets against market volatility.

Strategy for creating a stable monthly income through managing MPF portfolio

There are many ways to grow our investment wealth for a hassle-free retirement, one of which is effective MPF management. In Hong Kong, the total MPF assets amounted to HK$1.2 trillion[1] as at end of December 2021, representing a year-on-year increase of 4%. Among the employed population in Hong Kong, the coverage of employees under MPF schemes is as high as 78%[2]. Hence, knowing how to choose the right mix of our MPF portfolios is very relevant to us in the long run. We should be proactive in understanding and managing our MPF accounts, and see it as an integral part of our overall investment portfolio.

To address the three risks mentioned for those approaching retirement/already retirees, we should be a smart investor as we select constituent funds we invest in. There are different funds available in the market for such purpose. Let us take a look at how we can choose an MPF fund suitable for retirement.

One can look for an MPF fund that aims to **offer stable income** with **monthly dividends** and **protection against inflation** by providing a target total return above the inflation rate. Given a 2% inflation rate in Hong Kong in recent years, one can consider a fund that would generate a steady monthly return higher than 2% to support our daily needs after retirement and combat the inflation and longevity risks.

We shall examine both the investment risk of the fund and past performance of the investment portfolio. For example, if a fund invests in **Asian investment-grade USD-denominated fixed-income securities** and we see that such asset class has a long history of **low default risk** since 2010, the fund can be considered as an appropriate retirement solution for achieving stable, long-term investment return across different market cycles.

MPF is a long-term investment for retirement purpose. Members are always advised to review their portfolios regularly, exercise care in selecting which MPF funds to invest in and make active investment decisions for a more secured retirement life.

[1]"MPF Schemes Statistical Digest" (as at December 2021) published by Mandatory Provident Fund Schemes Authority in March 2022
[2]"MPF Schemes Statistical Digest" (as at December 2021) published by Mandatory Provident Fund Schemes Authority in March 2022

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 BCT Group

BCT Group comprises BCT Financial Limited ("BCTF") and Bank Consortium Trust Company Limited ("BCTC"). As one of the leading pension service providers in Hong Kong, BCT strives to provide best-in-class MPF/ORSO products and fund administration services. BCT is also one of the only two companies providing MPF Industry Schemes in Hong Kong. As of December 2021, our assets under administration exceeded HK$210 billion, serving over 1.2 million member accounts. With corporate governance, sustainability and sense of purpose as the foundation, BCT is committed to serving and creating value for all stakeholders.