

PREMIER SPONSOR ARTICLE SERIES

Feast or Famine: Building better post-retirement solutions

Schroders
施羅德投資

Why is post-retirement investing so difficult? What do people actually need in retirement? Is there one right answer?

In short, no. There are many complex issues involved in post-retirement solutions: insufficient savings, low bond rates, lack of financial knowledge, opaque products, regulations, operational constraints, political pressures, and the role of the state as a safety net, to highlight a few. These challenges are well known.

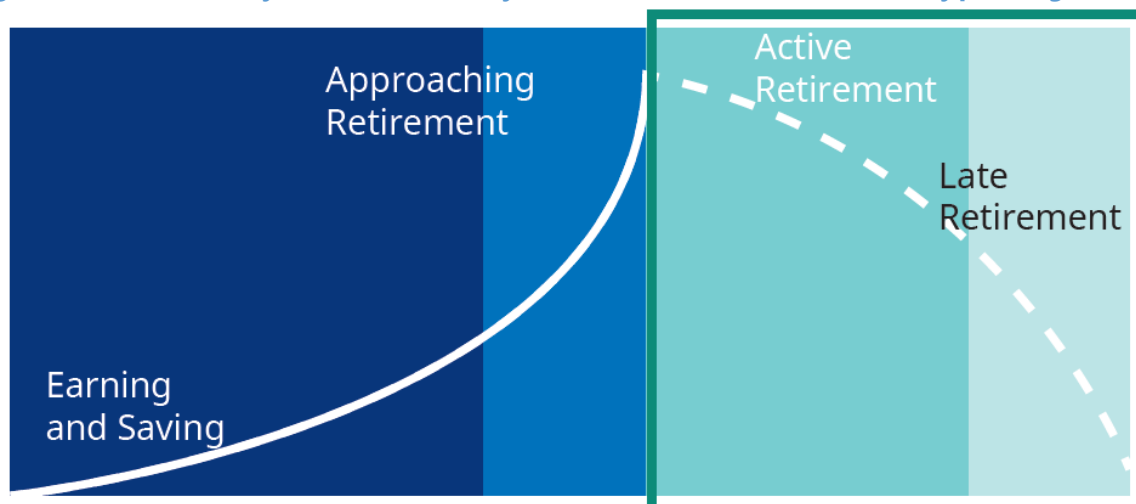
Retirement is full of uncertainty

Added to these challenges is an array of uncertainties that people need to consider when planning for their retirement.

- Improving **longevity** is a risk as people are living longer than expected and not having enough savings to last. This is in fact a significant risk as the percentage of the Hong Kong population aged 60 and above is expected to rise from 25% in 2019 to 42% in 2050.¹ These figures are higher than the whole of East Asia and Pacific, where the comparator figures are 16% in 2019 rising to 31% in 2050.¹

- Similarly, **consumption** is a risk as people may underestimate their expenditure in retirement due to underestimating the amount of goods and services they need during the period. What is most difficult to estimate are potential 'shocks' in consumption needs, which may come from unexpected medical expenses, family emergencies, major home repairs and investment losses. Another way in which consumption can change unexpectedly is due to changes in government policy; for example the application or removal of subsidies for retirees.
- **Inflation** risk comes in as inflation will increase the price of goods and services people consume over time, and inflation can go up at a greater rate than expected.
- **Investment** can be a risk when people earn less than expected on savings accumulated to date. This includes both insufficient growth net of fees as well as the risk of experiencing large losses near the start of retirement.

Figure 1: There are six key areas of uncertainty that individuals face when financially planning for retirement



Source: Schroders.

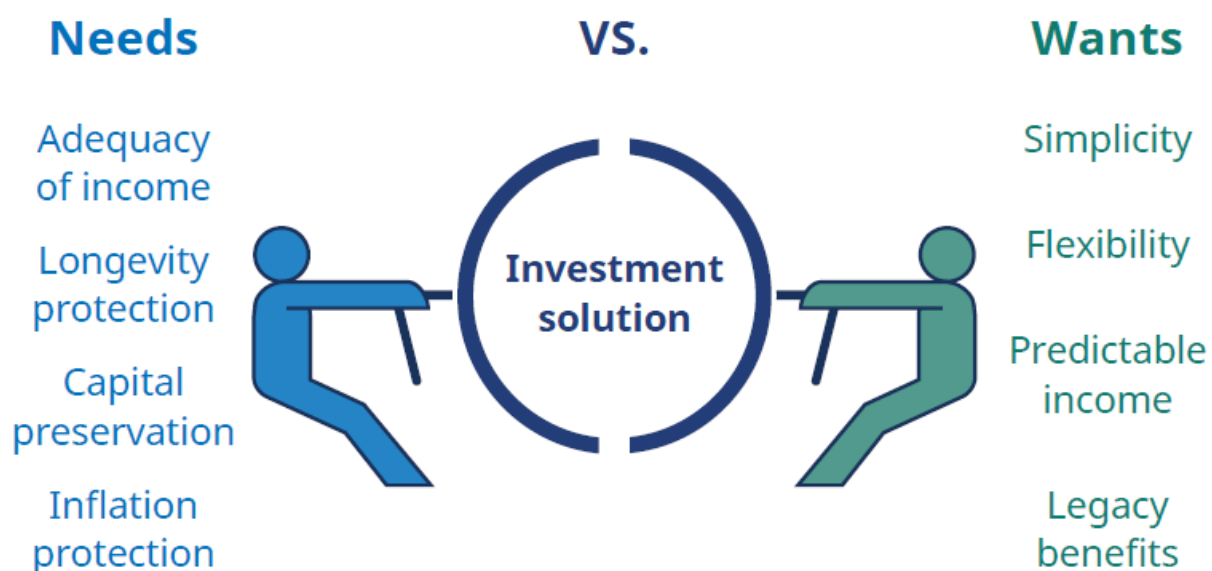
¹ World Bank, <https://data.worldbank.org/region/east-asia-and-pacific>

- **Behavioural risk** comes into play when people are unaware that behavioural biases can drive decision making. This can manifest in retirees withdrawing too much from over-optimism (i.e. believing they can utilise forms of savings in the future) or present day bias (i.e. prioritising near-term needs over the future).
- **Cognitive risk** refers to declining mental capacity to make informed decisions. Good cognitive functioning represents an essential element of healthy ageing and independent living

A tale of trade-offs

In our research we have found it is clear that the predictability of income and the ability of retirees to make their savings last are two things that are most important to retirees.

How can these be incorporated into the product design? Simply trying to achieve these goals and mitigate against the risks we identified earlier is not enough. That is because the challenge is further exacerbated by the tension between some of the features retirees may want from their post-retirement product – such as a predictable monthly income and the ability to leave a legacy – and some of the fundamental features that need to be part of a prudent post-retirement solution such as longevity protection and inflation protection.



Source: Schroders.

What is the answer?

As one could imagine, there is not a one-size-fits-all solution.

We, however, believe a constructive approach should comprise of a number of components including:

- Sustainable monthly income to meet monthly expenditure
- Growth potential to improve living standards in retirement and meet long-term needs
- Flexibility to allow retirees to adapt as their needs and circumstances change
- Simplicity to help retirees engage and understand what their solution will deliver

It is also advisable for savers to think about their risk appetite, which should in turn influence the risk level of their investments. For higher investment strategies, which have a greater expected payout, there will be a more variable payout expectation over time, and a higher potential for loss.

There is not a “silver bullet” solution

Faced with uncertainty, and the availability of many choices, in the absence of good quality advice or guidance, retirees are likely to make sub-optimal decisions. That is why it is vital for governments, policymakers, financial institutions and advisers to work together more, to find simplicity in this complex world. By doing so, we can build better retiree-centric products and solutions that not only help to mitigate their risks in retirement, but also are easy to access and simple to understand.

As for retirees, each individual will have to choose the portfolio that most appropriately balances the risks and benefits to suit their personal needs and preferences. In practice, how this is implemented depends on the risk appetite of the individual, the size of savings and the availability of products in the marketplace, taking account of regulatory restrictions and operational constraints.

Equally, given that a retiree’s circumstances are likely to change over time, retirees need to be prepared to review the appropriateness of their decisions regularly, to ensure that their goals and expectations continue to be realistic.

Please click [here](#) to learn more about how to build a better post-retirement solution for your needs.

Source: Schroders

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 Schroders

As a global investment manager, we help institutions, intermediaries and individuals meet their goals, fulfil their ambitions, and prepare for the future. We are responsible for £444.4 billion (€496.6 billion/\$565.5 billion)* of assets for our clients who trust us to deliver sustainable returns. Today, we have 5,000 people across six continents who focus on doing just this.

*as at 30 June 2019

Disclaimer

This document is intended to be for information purposes only and it is not intended as promotional material in any respect. It does not constitute any solicitation and offering of investment products. The views and opinions contained herein are those of the author(s), and do not represent views of the Hong Kong Retirement Schemes Association (the “HKRSA”). The material is not intended to provide, and should not be relied on for investment advice or recommendation. Information herein is believed to be reliable, but the HKRSA makes no guarantee, representation or warranty and accepts no responsibility for the accuracy and/or completeness of the information and/or opinions contained in this document, including any third party information obtained from sources it believes to be reliable but which has not been independently verified. In no event will the HKRSA be liable for any damages, losses or liabilities including without limitation, direct or indirect, special, incidental, consequential damages, losses or liabilities, in connection with your use of this document or your reliance on or use or inability to use the information contained in this document. This document has not been reviewed by the SFC. Any link to other third party websites do not constitute an endorsement by the HKRSA of such websites or the information, product, advertising or other materials available on those websites and the HKRSA has no responsibility for the accuracy or availability of any information provided by linked websites.