Manulife

News Release

New report suggests married Malaysian couples add seven to 11 years to retirement planning

Report recommends efficiently mobilising household wealth as a key strategy for meeting financial needs over a likely longer-than-expected retirement.

KUALA LUMPUR – Manulife Asset Management today issued a report that finds many married couples in Asia, including in Malaysia, are significantly underestimating the length of time they will spend in retirement and, as a result, are likely not accumulating sufficient retirement savings.
The report, entitled Live long and prosper? Retirement and longevity risk, is the fifth in Manulife Asset Management's Aging Asia series. It provides retirement duration forecasts and assessments of longevity risk, the risk that a retiree will outlive his or her sources of income, for married couples in 10 Asian economies: China, Hong Kong, Indonesia, Japan, Malaysia, the Philippines, Singapore, Taiwan, Thailand and Vietnam.

Michael Dommermuth, President, International Asset Management, Manulife Asset Management, explained: "We feel that marital status in particular is too often ignored in retirement planning. The vast majority of Malaysians continue to enter retirement as part of a married couple and thus should factor in the likelihood of one partner, usually the wife due to longer life expectancy for women, outliving the other."

Not factoring in the potentially significantly longer life expectancy of a partner can increase the potential that they will outlive their retirement savings. This situation is exacerbated by the fact that expenses are not cut in half by the death of a spouse as cohabitation delivers economies of scale for living costs. This can be particularly challenging for female sole survivors, who often have fewer retirement income resources as women tend to exit the labour force earlier.

Jason Chong, Chief Investment Officer of Manulife Asset Management Services Berhad, explained: "The report finds that married couples in Malaysia face average joint retirement of 27.4 years, which represents a generally 'higher' degree of longevity risk relative to their peers across Asia. This is partly because Malaysians retire from the workforce relatively early.

"We find a relatively high 66% correlation between a country or territory's per-capita GDP and its average life expectancy[1]. Therefore, life expectancy and longevity risk is likely to increase further in Malaysia as the country is forecast to see strong economic growth and rising per capita incomes for many years to come[2]."

Dommermuth added: "It is important to realise that any given individual has a 50% chance of living longer than the average forecast period. Our research indicates that in Malaysia the chances of outliving retirement savings can be substantially reduced if married couples either delay retirement or factor an additional seven to 11 years into their financial planning."

Policymakers are already taking steps to reduce longevity risk for their citizens. Malaysia, for example, raised its official retirement age to 60 from 55 in 2013 and a recent proprietary Manulife survey found that 70% of Malaysian respondents are amenable to a higher retirement age. That being said, the Aging Asia research series has shown that responsibility for retirement income security is increasingly shifting to individuals and that effective deployment of household wealth would reduce the chances of outliving retirement savings by delivering the potential for returns in excess of bank deposit rates.

Chong expanded on this: "As a financial service provider, Manulife Asset Management Services Berhad has developed a range of retirement solutions that can be used to mobilise household wealth and maximise returns potential. In addition to delivering potentially higher returns, these retirement solutions are structured to encourage disciplined saving to help mitigate longevity risk.

"For example, Manulife Asset Management is a provider for the Private Retirement Scheme (PRS), which allows investors to make monthly or annual contributions. Meanwhile, the range of unit trusts that we offer under the Employee Provident Fund (EPF) investment scheme include alternatives to mandatory contributions and a high degree of flexibility in fund selection. Finally, we manage a global multi-asset unit trust that is available under a Manulife investment-linked insurance fund and delivers the potential for annual pay outs to supplement household income in retirement."

Manulife Asset Management's Aging Asia series of reports and related resources can be accessed at: www.manulifeam.com/agingasia.

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Notes to editors

The retirement duration figures quoted in this release and in the report, Live long and prosper? Retirement and longevity risk, are based on Manulife Asset Management's Asia Retirement Duration Model (ARDM). ARDM produces a full lifecycle view of retirement duration from the initial stage as a married couple through the transition to a sole survivor.

ARDM has three key inputs:

- Retirement age – official retirement ages remain relatively low across most of Asia even as life expectancy is increasing, extending the period of time individuals spend in retirement.
- Life expectancy – Asia is home to some of the longest lived populations in the world following rapid increases in life expectancy in the region over the past few decades. Longer life spans translate directly into extended retirement duration and hence contribute significantly to longevity risk.
- Marital status – Most couples in Asia enter retirement as part of a married couple, meaning that their retirement planning should be based on joint rather than single life expectancy as one partner – usually the wife – is likely to outlive the other, potentially by a significant margin.