Manulife Investment Management

News Release

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Malaysians can expect their retirement income of less than one-third of current income level

- Manulife Investment Management launches Retirement Income Forecaster to help people recognize and meet their retirement income gap
- Short- and long-term macro challenges highlight need to create sustainable retirement income stream

KUALA LUMPUR – Today, many Malaysians are taking different measures to financially prepare for retirement, through the public mandatory retirement scheme, savings, and separate investments, with the aim of creating a sustainable post-retirement income stream. Research from Manulife Investment Management revealed that, in general, working Malaysians are likely to get a recurring retirement income of less than one-third of their current income when they retire, with some receiving as low as 15% of current monthly salary.

The finding is according to the newly launched thought leadership campaign titled "Diverse Asia" which features the Retirement Income Forecaster, a proprietary tool that helps people project their anticipated monthly retirement income based on current age, salary, and investable assets, including their public mandatory retirement scheme contributions. The Retirement Income Forecaster allows users to see how their expected retirement income could change at different life stages, which can help them identify the financial gaps and actions needed to secure the retirement lifestyle they envision.

Émilie Paquet, Head of Strategic Initiatives and Innovation, Multi-Asset Solutions, Manulife Investment Management, said: "The Retirement Income Forecaster is a tool that integrates our firm's proprietary capital market assumptions and leading investment portfolio data. Based on our state-of-the-art mathematical modeling and rigorous simulations, the Retirement Income Forecaster calculates the expected monthly retirement income that people could achieve with a good level of confidence. We believe this tool could help users realize how much they could potentially save for retirement based on their current status, and take appropriate steps to better plan their financial future."

Using the Retirement Income Forecaster, Manulife Investment Management looked at four general scenarios of working people in Malaysia, which showed that their projected retirement income could be far less than what they are currently earning:

- Scenario 1: A person at age 32 who has found a stable career which is starting to take off currently earns MYR 7,500 per month and has investible assets of MYR 125,000. Based on this, the expected monthly income in retirement is MYR 2,400, or 32% of current salary.

- Scenario 2: A 42-year-old person working in a managerial position is earning MYR

25,000 each month and has investable assets of MYR 375,000. In retirement, the person can expect a monthly retirement income of MYR 5,100, or 20% of current income.

- Scenario 3: A person at age 52 who runs a small business has a monthly salary of MYR 25,000 and investable assets of MYR 500,000. The monthly post-retirement income the person can expect to receive will be MYR 3,700, or 15% of his current earnings.

- Scenario 4: A 59-year-old person who is about to retire currently earns 12,500 per month and has investable assets of 500,000. The expected monthly income in retirement will be MYR 2,600, or 21% of current salary.

A separate survey commissioned by Manulife Investment Management found that people in Malaysia expect they need an average of MYR 5,871 per month to maintain a comfortable lifestyle in retirement, which is the same level as their current income*

One of the reasons attributable to the huge retirement income gap between ideal versus reality is Malaysians' amount of investable assets relative to income, which can be a major source in generating the funds they need in retirement. According to the same survey, 68% of Malaysians have less than MYR 200,000 of investable assets*

Elvin Tharm, Head of Retirement Proposition, Strategy and Transformation, Asia Retirement, Manulife Investment Management, said: "There is clearly a huge gap between Malaysians expected retirement expenses and the amount of retirement income they could confidently achieve per their current financial status. People in Malaysia, and in fact across Asia, are facing a challenging situation in bridging this gap. With inflation, medical costs, and prices of daily necessities on the rise, their cash savings and income will erode over time.

"A majority of Malaysians still prefer holding on to cash instead of deploying them into investments. In fact, 44% of people in the country allocate their household assets to cash and bank deposits, and only 24% of them have allocated their assets to investments such as mutual funds, stocks, bonds, exchange traded funds, and real estate*. Those who plan to rely on their cash savings once they reach age 60 could be most at risk of not having enough in retirement. This comes to show there is an imminent need for people to better plan for their financial well-being and an effective way to produce recurring income when they retire."

Macro challenges: Elevated inflation, weaker growth and tighter policy

Inflation has always been the key issue in retirement, and recently markets around the world has seen the detrimental impact it could have on people's livelihood.

In the short term, Manulife Investment Management expects food and energy inflation likely to remain high, and goods and services that are interest rate-sensitive could experience disinflation. In addition, concerns about slowing economic growth are on the rise, and the team expects to see a recession in developed markets and a weaker-than-expected economic recovery in parts of Asia.

Longer-term, Manulife Investment Management still expects inflation to continue to ascend, albeit moderately, mainly driven by global and supply side factors. This will be challenging for central banks to combat and could push them to accept higher inflation over the long run.

Ng Chze How, Head of Retail Wealth and Distribution, Manulife Investment Management (M) Berhad, said: "Low inflation and higher yielding investments is the ideal macro environment for retirement. However, what we are experiencing now is the total opposite. We expect inflation to stay elevated and markets to remain volatile for an extended period of time. Under these circumstances, investors should consider long-term income-oriented and diversified multi-asset strategies when planning for retirement. This allows them to seek and capture sustainable income from higher yielding assets, as well as potentially benefiting from capital appreciation opportunities that may arise across geographies and sectors which can produce real returns on top of inflation.

"Given the anticipated challenges in the macro environment over the short and long term, people should invest early and stay invested – even during retirement – to create the sustainable income stream needed in retirement. Investment solutions that re-invests capital gains and income can potentially generate investment returns and real yields that can help them address longevity and other retirement-related concerns."

Elvin Tharm added, "Malaysians may also consider taking advantage of the voluntary top up of their public mandatory retirement scheme contributions and setting up a separate investment portfolio dedicated to retirement savings to supplement their public mandatory retirement scheme. This may provide the additional safety net and flexibility in managing their finances in retirement. While 29% of the people we have surveyed are already taking part in the public mandatory retirement scheme voluntary top up or have a private retirement scheme*, we believe this could be higher.

"We encourage people to use the Manulife Investment Management Retirement Income Forecaster to find out their expected monthly retirement income, identify the financial gap with achieving their ideal retirement lifestyle, set objectives, and seek for the most appropriate investment solutions."

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** Manulife Investment Management commissioned NielsenIQ to conduct an online survey of 2,000 people from Hong Kong, Taiwan, Indonesia, and Malaysia – 500 people from each market – who are aged 20 to 60 between 25 August and 6 September 2022. The research aims to assess people's retirement readiness and aspirations, including savings and investments, and lifestyles and family issues they consider when planning for retirement.*

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