

Steady Income Options

From Your MPF Savings When You Retire

We have devoted many issues to helping you plan for retirement, what do you do with this money once you retire?

First things first – the need to remain invested does NOT stop here because of **longevity** (we need to ensure we have enough for our lifetime) and **inflation** (we need to ensure we can still afford our desired lifestyle on retirement).

So, what are the options for a steady income in retirement? We investigate below annuities and MPF products.

Post retirement focus – steady retirement income stream

Annuities

There has lately been much publicity about converting MPF savings on retirement into public annuities. So, what is this and how does it compare to private annuities:

	Public Annuity	Private Annuity												
Issued by	Hong Kong Mortgage Corporation (HKMC)	Insurance companies												
Eligibility	Anyone from age 60	Depends on individual insurers												
Premium	Single premium, from HK\$50,000 to HK\$3,000,000	Most require instalments, though a few offer single premiums												
Retirement income	Whole life, immediate, fixed monthly payments	Whole life or fixed period, immediate or deferred, amount varies, may have guaranteed portion												
Conversion	Rates are published so monthly income is certain. See table for an illustration for a premium of HK\$500,000: <table border="1" style="margin-top: 10px;"> <thead> <tr> <th colspan="3">Monthly payment (HK\$)</th> </tr> <tr> <th>Age of applicant</th> <th>Male</th> <th>Female</th> </tr> </thead> <tbody> <tr> <td>60</td> <td>2,550</td> <td>2,350</td> </tr> <tr> <td>65</td> <td>2,900</td> <td>2,650</td> </tr> </tbody> </table> <p><small>(source: HKMC, click here - https://www.hkmca.hk/hkmcaphp/php/calculator_web.php)</small></p>	Monthly payment (HK\$)			Age of applicant	Male	Female	60	2,550	2,350	65	2,900	2,650	Usually made up of 2 parts – one part guaranteed and another non-guaranteed, and the conversion rates will depend on age, health conditions (not required under the public annuity), current interest rates, period of payment etc., and thus will require individual quotations.
Monthly payment (HK\$)														
Age of applicant	Male	Female												
60	2,550	2,350												
65	2,900	2,650												

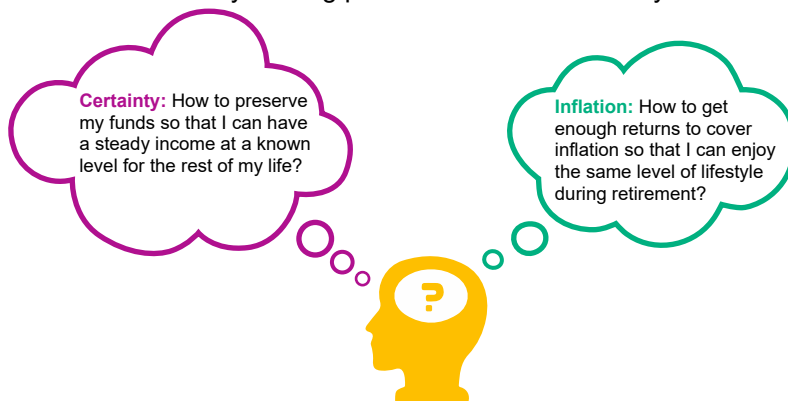
The main difference between public and other (private) annuities is the **certainty** of the amounts of monthly payments as the conversion rate for public annuity is published. Refer to this [link](#) for more details.

Do remember the above may represent only a portion of your MPF savings, and you still need to manage the remaining part of your retirement assets to generate sufficient funds for other expenses/amounts needed for a comfortable retirement.

MPF products

DIY – Do It Yourself. You can create your own regular income stream by making periodic withdrawals from your MPF savings.

Going on your own means regularly reviewing and adjusting your portfolio to ensure that your strategy remains relevant to you, i.e., your time horizons, retirement lifestyles, etc., and asking yourself the questions on the right.



At this point, you may be thinking “*What about MPF Guaranteed Funds? Maybe I can create a steady income from investing in one!*” This is harder than it

sounds from a practical standpoint, and we have included in the MPF Classroom a comparison of the available Guaranteed Funds to highlight issues you should consider if you wish to explore this.

Bespoke MPF Funds aimed at generating regular dividends

This is a recent development in Hong Kong with the first retirement income product, aimed at producing regular dividends, only launched in September 2020. We understand others are likely to appear soon. We expect these retirement income products to be managed conservatively whilst possibly aiming for a specific dividend yield. In general, we would NOT expect such products to provide a promise on the capital or return.

The advantage to this approach is that your investments will be managed without having to worry about regularly reviewing and adjusting your portfolio, especially if you have limited time or knowledge to do so.

Having a steady, known income in retirement can provide peace of mind. The solution will vary from person to person, as needs will be dictated by individual circumstances, and we recommend that time be devoted to study this important subject. Further information can be found on the MPFA and the Chin Family websites.

Highlight of investment performance up to 30 September 2021

The **annualised performance** over 1-year and 5-year periods ended 30 September 2021 of each MPF fund type was as follows:

Performance ended 30 September 2021		1-year period			5-year period		
Fund category	Fund type	Highest % p.a.	Average % p.a.	Lowest % p.a.	Highest % p.a.	Average % p.a.	Lowest % p.a.
Mixed Assets funds	Equity content > 80% funds	19.8	17.2	14.9	9.3	8.6	7.9
	Equity content 60% - 80% funds	15.6	12.8	9.7	8.3	7.0	2.9
	Equity content 40% - 60% funds	10.7	8.6	6.6	6.2	5.4	4.4
	Equity content 20% - 40% funds	6.1	4.2	3.4	4.2	3.6	3.0
Default Investment Strategy funds	Core accumulation funds	16.2	14.6	13.7	n/a	n/a	n/a
	Age 65 Plus funds	3.8	2.9	2.4	n/a	n/a	n/a
Equity funds	Hong Kong equity funds	20.7	5.4	-3.6	12.7	6.9	4.4
	Hong Kong equity (Index Tracking) funds	6.6	5.7	3.4	5.5	3.7	2.9
	China equity funds	4.5	-0.7	-6.0	8.8	5.6	0.1
	Greater China equity funds	18.3	11.5	5.3	16.8	11.8	8.0
	Asian ex Japan ex HK equity funds	12.4	11.9	11.5	9.2	8.0	5.6
	Asian ex Japan equity funds	20.5	16.3	11.1	11.5	8.8	4.0
	Pacific Basin ex Japan equity funds	35.9	22.9	16.7	16.7	9.1	1.9
	Global equity funds	35.3	26.0	14.3	14.7	10.6	7.5
	United States equity funds	31.9	28.8	22.0	20.4	14.8	12.7
	European equity funds	30.7	26.9	19.1	12.8	7.3	5.6
Japanese equity funds	28.0	22.8	19.1	9.6	7.9	6.2	
Bond funds	Hong Kong Dollar bond funds	0.7	-0.3	-1.1	2.0	1.6	0.9
	Asian bond funds	1.6	-0.6	-2.0	2.4	1.7	1.2
	Global bond funds	-0.5	-2.2	-3.8	2.1	1.0	-0.4
	RMB bond funds	5.5	4.5	3.6	3.1	2.3	1.8
Money Market funds	MPF conservative funds	0.6	0.1	0.0	1.4	0.5	0.1
	Hong Kong Dollar money market funds	-0.1	-0.1	-0.2	0.7	0.7	0.7
	RMB and HKD money market funds	5.1	4.4	3.9	2.7	2.0	1.5
Others	Guaranteed funds	4.3	0.9	-1.7	3.5	1.4	0.2

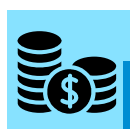
Source: MPFA

Data as at 30 September 2021

Disclaimer: The information and data included in this table are provided for general information purposes only and do not constitute investment advice, nor should they be construed as an offer or solicitation or recommendation to invest in or deal in any scheme, fund, product, service provider or service referred to. As such, the information provided should not be relied upon for any investment or other financial decisions and no such decisions should be taken without seeking specific professional advice. Any use of or reliance on any information or materials contained herein is entirely at the reader's own risk and Willis Towers Watson and its affiliates accept no responsibility and will not be liable for any consequences howsoever arising from any such use or reliance. In addition, please be reminded that past performance is not an indication of future performance.



Out of 400+ MPF investment funds, 18 or (4.5%) are guaranteed funds



Out of HK\$80 billion MPF assets, HK\$5.3 billion or (6.6%) are guaranteed funds

There are mainly 2 types of the guaranteed funds: soft guaranteed funds and hard guaranteed funds. Although these funds are generally conservative, their features and performance can vary widely. We have highlighted below some key features of these guaranteed funds so that you can make an informed choice and ask the right questions of your MPF providers.

	Soft Guaranteed Fund	Hard Guaranteed Fund
Condition for guarantee to apply	Yes, usually age 65 and/or meeting other MPF payment criteria	No restrictions
Examples of other special requirements	<ul style="list-style-type: none"> • Must invest over a minimum period (say 5 years) • Must invest before certain age (say age 55) 	Not applicable
Return calculation	Normally under 2 accounts: <ul style="list-style-type: none"> • If guarantee conditions not satisfied, actual return (which could be +ve or -ve); and • If guaranteed conditions are satisfied, the higher of actual return and the guaranteed return 	Only one account, rate of return usually is declared once a year
Potential return	Relatively high, but may get negative returns if guaranteed conditions are not met	Relatively low, always positive
Suitable investors	Seeking positive return and will not switch funds until retirement	Parking fund when you plan to redeem funds shortly

What are the returns like?

The tables below show the returns by popular guaranteed funds (top 10 by asset value) as of 30 September 2021:

Hard Guaranteed funds	5-year return (per annum) as of 30 September 2021
AIA - Guaranteed Portfolio	0.15%
Manulife Global Select – Interest Fund	0.39%
Principal 800 – Capital Guaranteed fund (Class D)	0.47%
Principal 800 – Capital Guaranteed fund (Class I)	0.36%

Soft Guaranteed Funds	5-year return (per annum) as of 30 September 2021
China Life – Joyful Retirement Guaranteed Fund	1.69%
Hang Seng – Guaranteed Fund	0.52%
HSBC – Guaranteed Fund	0.52%
Invesco – Guarantee Fund – Unit Class G	1.71%
Manulife Global Select – Stable Fund	3.54%
Principal Smart Plan – Guaranteed Fund	0.77%

It is important to study the features and conditions of these funds carefully before you invest in them.

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