How to Build a Million-dollar Retirement Reserve Before the Age of 65

While becoming a millionaire is a dream for many, most of us are deterred by the perceived difficulties of the task and fail to take action. However, if members are willing to reserve a little time to do some planning, saving a million dollars is not an impossible mission. In fact, to retire at 65 with five million dollars in savings can be an attainable goal.

Saving a million dollars with ease for HK$10,000-a-month earners

As shown in Figure 1, assume a member is earning a monthly income of HK$10,000, which translates into a monthly MPF contribution of HK$1,000. Further assume that the member started working and saving at the age of 23, with an annual return of 3%, and the member will have saved up a million dollars by the time they are 65 years old. Therefore for those members who pocket HK$10,000 each month, with proper MPF management saving a million dollars can be an easy task.

Nevertheless, if a member starts to save at 40, given the same annual return of 3%, the amount of monthly saving required to become a millionaire at 65 will shoot up by 125% to HK$2,249. If the amount saved per month is to remain unchanged at HK$1,000, it will require an annual return of 8.3% to reach the million-dollar goal. But high investment returns like this may not be easily attainable.

Figure 1. Adjustable factors for saving up a million dollars by the age of 65

Current age	Monthly saving ($)	Investment horizon (years)	Required rate of return	Saving target ($ million)
23	1,000	42	3.0%	1
40	2,249	25	3.0%	1
40	1,000	25	8.3%	1

Four controllable factors of retirement saving

Our smart members may have realised by now that, to reach their saving goals, there are several adjustable factors that can be managed:

1. Raise the realisable required rate of return.
Returns can be enhanced by investing smartly. However, market volatility is out of our control and investment risks are difficult to predict, so the outcome of this factor is relatively hard to control.

2. Lower the overall investment fees.
With the combined effort of the MPFA and trustees, the fee levels of the MPF schemes have been already lowered, which means members can save a larger sum. This factor is relatively more controllable.

3. Increase the saving amount (contribution).
This depends on if the member is willing to lower consumption and/or extend the saving horizon to increase the amount saved. Highly controllable.

4. Extend the investment horizon.
Members can start the saving habit earlier or push retirement to a later date to make the investment horizon last longer. The most controllable factor.

Investment horizon – the most manageable factor

In fact, if members pay more attention to the management of their investments, an average annual return of 3-5% is reasonable and achievable in the longer term. However, since the most controllable factor in investment is the length of the investment horizon, members are advised to start their saving plans as early as possible regardless of how ambitious their saving goals are. If a member realises that his/her saving is insufficient to cover future expenditures, or if the saving goal cannot be achieved as retirement nears, the member can consider extending his/her working life to lengthen the saving and investment horizons.

Besides, it may not be feasible to rely on MPF assets alone to cover all retirement expenditures, so in addition to contributing to MPF accounts, members should also arrange for extra savings and utilise other investment tools to enlarge the arsenal of retirement reserves. To evaluate the advantages and disadvantages of different kinds of investment tools (refer to Figure 2), members should give priority to their personal investment goals and levels of risk tolerance, among other considerations, before deciding their investment choices.

Figure 2. Advantages and disadvantages of different kinds of investment tools

Tool	Advantages	Disadvantages
Stocks/ETFs	• Simple investment concept and easy execution • Active participation • High potential return • Inexpensive (dependent on stock picks)	• Richest volatility • Large potential loss
Mutual funds	• Diversification • Different fund choices	• Relatively higher charges • Easily disoriented by too many fund choices
ORSO/MPF	• Disciplined investment approach • Clear goal	• Need to have a long-term vision
Bank deposit	• Safe • Lowest volatility	• Return may be lower than the inflation rate
Real estate	• Active participation • Protest against inflation • Extra source of income after retirement, e.g. through reverse mortgage	• Very low liquidity • Long investment horizon • Maintenance cost required

Last but not least, while it may not be a difficult task to save up a million dollars with your MPF account, the key is to plan ahead as early as possible and play a more active role in managing your MPF investments. For those who have set an ambitious saving goal for themselves, there may be a need to increase the saving amount or consider extending their investment horizons by postponing retirement.

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