Wealth

New retirement solutions enter the market

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Some quarters say the country is undergoing a “retirement crisis”, which may not be untrue. Half of the Employees Provident Fund (EPF) members aged 50 to 54 have less than RM50,000 for retirement. Adding in the nation’s household debt of 146% and that 47% of youth (both as at June this year) have high credit card debts, the future of the country’s retirement landscape looks rather bleak.

It is against such a backdrop that the regulator and industry players are working on bringing more creative retirement products and solutions into the market. Market demand for retirement solutions is huge. The question is what can be done to make the Malaysian public start taking action.

An interesting development recently is the potential launch of the ePRS — also known as algo-based PRS — next year, following the expansion of the existing PRS (Private Retirement Scheme) framework by the Securities Commission Malaysia (SC).

SC chairman Datuk Seri Dr Awang Adek Hussin had previously said in a speech that ePRS could be offered by robo-advisory firms (or digital investment managers) or existing fund houses.

According to the SC and robo-advisory firms, the benefits of ePRS are manifold. Wong Wai Ken, StashAway country manager for Malaysia, says it could potentially enhance the performance of PRS by scrapping the sales charge.

"Robo-advisors offer lower fees, and ePRS investors would not have to pay upfront sales charges, which erode their returns," he says.

Just how much do existing PRS funds charge investors on sales charges? According to the official website of the Private Pension Administration (PPA), the fee could be up to 0.5%, 1.5% or 3%. AHAM Asset Management is the only firm that does not impose a sales charge for all the PRS funds that it manages.

Meanwhile, the annual management fee ranges from 1% to 1.8%.

While there is no definite way of knowing to what extent PRS funds' performance has been impacted by sales charges, the returns they generated in the past seven years were unattractive, according to Wong.

"For the funds that have been part of the PRS over the last seven years, the average annualised return is only 2.2%. And only two out of the 54 funds have posted returns of over 5% annually. That's why I believe that algo-based PRS funds would be able to revive interest in the PRS space," he says.

Algo-based PRS, Wong adds, would introduce a new breed of fund managers to manage PRS funds, in the same way robo-advisory firms were introduced in 2018 to disrupt the unit trust industry.

"Robo-advisory firms like us can use technology to our advantage and programme our funds to change [their portfolios' asset allocation] with client's risk appetite or best practices as time goes by.

"For instance, they could replicate target date funds, where the risk of the portfolio decreases as investors approach retirement by automatically shifting equities to bonds and gold as time passes," he says.

Wong expects more clarity on ePRS only in the second half of next year.

Ronnie Tan, managing director and CEO of GAX MD Sdn Bhd, which operates robo-advisory platform MyTheo, agrees with Wong's views on the benefit of ePRS.

He says ePRS may be able to invest in global exchange-traded funds (ETFs) that further enhances diversification, and possibly returns, by providing exposure to a wide range of international markets, industries and asset classes.

"The global perspective reduces dependency on a single market and helps mitigate risks associated with regional economic fluctuations," Tan adds.

Underpinned by algorithm, he says the benefits of ePRS also includes cost efficiency and a high level of personalisation. With the help of technology, players like MyTheo can streamline their back-end processes and cut operational costs, which in turn would allow them to charge investors lower fees for their services.

The utilisation of the algorithm would also allow MyTheo to tailor more specific investment strategies to cater to each individual's goals, according to their risk tolerance and investment horizons.

"Regarding the launch timeline, we are actively working towards it. We believe the SC is currently in the process of amending the relevant guidelines to operationalise ePRS by the end of next year," says Tan.

"At MyTheo, we are committed to ensuring that when ePRS is launched, it not only meets regulatory standards, but also exceeds user expectations in delivering a seamless and personalised retirement savings experience."

Micro investing for retirement and tax relief beyond 2025?

During an interview with Wealth, Husaini Hussin, CEO of the Private Pension Administrator (PPA), says it will take time for ePRS to be introduced as PRS falls under the Capital Markets and Services Act.

"[The extension of the framework] is still being developed by the SC and it will need to go through parliament to be approved, which could be sometime next year," he says.

Husaini sees benefits in ePRS, as it provides more flexibility to the fund managers to better manage investors' portfolios.

"If you're investing in PRS funds, only the investors can move their money within those funds. But ePRS allows fund managers to move those allocations depending on investors' needs and fund managers' strategy," he says.

Meanwhile, Husaini also brought up another interesting idea to encourage the public to save and invest for retirement, which is through micro investing.

Micro investing means to invest one's spare change, after purchasing goods and services, in the markets through the help of technology. It is like saving coins in your piggy bank every day when you are back from shopping. Instead, it is done online through a digital platform.

At the moment, the only micro investing provider locally is Raiz. Upon downloading and registering with its mobile app, the platform helps its users invest their spare change in equity, bond and balanced funds managed by Permodalan Nasional Bhd (PNB), UOB Asset Management and global asset manager Abrdn (formerly known as Standard Life Aberdeen plc).

The micro investing platform recently added the Nomura Global Shariah Semiconductor Equity Fund under its list of funds.

“We are exploring with the digital asset managers on introducing micro investing to the people to save and invest for retirement,” Husaini says.

The RM3,000 tax relief, which will expire in 2025, is a key benefit that the government provides to PRS investors. Will such a benefit be further extended upon its date of expiry?

While Husaini has no definite answer to it, he says it is likely that the PRS tax relief will be extended as other countries, such as Singapore and Hong Kong, are offering even higher amounts of tax relief to investors of their voluntary pension schemes.

It also makes sense for the government to provide tax relief for voluntary pension schemes when the mandatory scheme, which is the EPF, enjoys tax relief of up to RM4,000.

After all, these pension schemes lock in investors’ funds until the age of 55 or later. Government tax incentive is an important sweetener to encourage Malaysians to save more for retirement. “So, logically speaking, it has to continue. But it all depends on the government,” he says.

While it is Husaini’s hope that technology will nudge Malaysians to save more for retirement through PRS, investment performance, as usual, plays a key role in attracting investors’ money as they would invariably compare the performance against that of the EPF, which has done well over the decades.

He says the EPF has done a very good job at paying consistent dividends to investors, even during challenging times like the Covid-19 pandemic. And the income distributed to investors is not mark to market.

"This is something of a challenge for PRS and others out there, as the EPF is excellent at managing its funds. They also have two things that work for them. [First], they are not marked to market. Whatever balance you have, that's your balance," he says.

"Under the SC regulation, we (PRS funds) can only buy listed products from capital markets, whether they are local or overseas. When the market goes down, everything is depressing, and your balance [drops]."

Husaini adds that PRS is an addition to EPF and not a complete replacement.

Innovation in the existing PRS market

However, it is worth noting that the existing PRS industry, consisting of traditional fund houses, has been offering creative products to attract investors to build/rebuild their nest eggs.

Furthermore, they can also be a provider of ePRS through various forms, be it setting up their own platforms and portfolios or through partnerships, if they see potential in it.

Investors who are looking for more creative retirement products can explore the PRS solutions offered by Principal Asset Management Bhd.

Munirah Khairuddin, CEO and country head of Principal Malaysia, says one thing that makes the firm stand apart is its PRS end-to-end solution. It means that investors can plan and invest for their retirement in different stages of their career and life cycle.

The solution has two stages — (i) the accumulation stage, when investors are still employed and earning active incomes, and (ii) the decumulation stage, when they retire relying on passive incomes.

During their accumulation stage, Munirah says investors can opt to invest in target date funds (TDFs) that are selected based on their year of birth. In essence, TDFs have a target date that closely corresponds to the investors' year of retirement when they are expected to start withdrawing money from the portfolio.

As each target date portfolio approaches its target date, the investment mix becomes more conservative by increasing exposure to generally more conservative investments and reducing exposure to typically more aggressive investments.

Upon retirement, investors of Principal's PRS solution enter their decumulation phase, which comes in two components and in the form of regular withdrawal plans (RWP) and income funds.

"The two components — RWP and income funds — complement each other by allowing retirees to plan their retirement withdrawals while the income funds will be able to help generate additional returns with the remaining untouched balance within the funds," says Munirah.

On the other hand, Maybank Asset Management (MAM) has launched its Flexible Retirement Solution that provides investors with three funds with different target returns, investment objectives and expected income distribution to help them invest better for their retirement.

The solution includes the Maybank Global Wealth Conservative-I Fund, Maybank Global Wealth Moderate-I Fund and Maybank Global Wealth Growth-I Fund. The second and third funds are under the accumulation class and can help investors accumulate wealth in the earlier stage of their lives when they are still working.

The Maybank Global Wealth Conservative-I Fund, however, falls under the decumulation class where an investor's investment capital will be drawn down as part of the quarterly income payout of 7% per annum.

The fund was launched on Feb 13, 2023, with the fund size reaching RM146 million as at November 2023, according to Syhiful Zamri, MAM's chief investment officer.

"On the other hand, if the financial markets rally, the 7% per annum payout will then be fully derived from the return appreciation and no asset downturn will take place. However, the income payout is up to 7% per annum in any circumstance," he adds.

Early this year, TA Investment Management Bhd launched a product that comes with a feature suitable for retirees.

The TA Total Return Income Fund allows its investors to opt for a fixed payout feature that will pay them a 5% return per annum, which could be distributed out of dividends, capital gains or initial capital.

Yet, how much one needs for retirement is, to a certain extent, subjective, depending on each individual's needs. The best way to invest for retirement is, perhaps, to take a very long-term view and not try to time the market.

PPA's Husaini says there are a few forms of spending that come once a person retires, mainly to maintain their lifestyle, fulfil their desires such as going on holidays, prepare for unplanned expenditures such as hospital visits and also to take care of their families.

"The reality is, when it comes to investing for retirement, investors should not try to time the market. But what is more important is how much time in the market the investors are willing to give. If you invest long enough and keep reinvesting any dividend received, you will be able to enjoy the compounding effect of investing," advises Syhiful.

"In addition, diligently investing in small amounts but at regular intervals over a period of time tends to give better results than trying to pick the best timing to invest," he says.