Date: 29 November 2017

The Edge-Kenanga Retirement Forum 2017

PERCEPTION OF RETIREMENT MUST BE CHANGED

Pathma Subramaniam (27 November 2017)

Malaysians must alter their mindset of what retirement is and view it as a chapter instead of an end point so that they can plan better for what is to come. According to Kenanga Investors Bhd CEO Ismitz Matthew De Alwis, most people go through their working years thinking of retirement as the final destination. This perception is one of the main reasons many people fail to plan and sustain their life savings in their retirement years, he said at The Edge-Kenanga Retirement Forum 2017. "But the truth is, retirement is another phase of life. If you really observe, every phase of life – from childhood to young adulthood, to starting a family – lasts an average of 25 years. So why should retirement be any different?" said De Alwis. Planning well is even more pertinent today with life expectancy rates increasing and birth rates dropping.

Malaysia also faces the prospect of a growing ageing population and workforce, De Alwis told participants during his presentation on why retirement was going to be more challenging than before. “Just look at our neighbours across the Causeway. People in their sixties and seventies are working at fast-food joints as cleaners and servers. Why do they need to continue working at an age when they should be putting up their feet and relaxing?” he said.

“A friend recently argued that Singapore is rich enough to provide the elderly with a social safety net similar to some Scandinavian countries. But what many people fail to grasp is that in those countries, their citizens are taxed more than 50% [so that aged care services, for example, can be rolled out]. Can such a high tax regime be imposed in Singapore, or even Malaysia for that matter?” According to the Department of Statistics, Malaysia is expected to experience population ageing by 2020, where the percentage of those aged 65 years and above reaches 7.2%. “There is new research that says if you live beyond 72, you are most probably going to live past 80. That is 20-odd years of life after retirement. So, like every other phase in life, retirement is simply a milestone on this journey,” said De Alwis.

In February, the Employees Provident Fund (EPF) disclosed that two-thirds of its members aged 54 had RM50,000 or less in their accounts as at 2015. This data is one of the reasons the EPF is considered to be “one of the least adequate” in the Allianz Retirement Income Adequacy Indicator – a ranking of retirement income adequacy of pensions provided by 49 countries across the globe. Going by this data, at the official retirement age of 60, most Malaysians may find themselves with no assets and roughly 20 more years to live.

Despite numerous research and statistics that set alarm bells ringing, most Malaysians are not prepared to retire, taking into consideration the rising cost of healthcare, increasing inflation and longevity risks. “By 2040, 19.8% of the population will be made up of senior citizens. Besides living longer, we have to worry about inflation. Our headline inflation is at 3.6%, but there are categories of inflation, such as education and healthcare expenses, to consider,” said De Alwis. “Gone are the days when people had children early in life. My children will only be in college when I am in my late fifties and early sixties. So, by the time we retire, our children will still be in school.

“We will not only have to pay for their education but also provide [financial] help after they graduate and start working. For instance, they will need a car or help with the down payment for a property of their own. If your parents are dependent on you, that is another thing to think about. It is a sandwich environment because we not only have to care for our children but also our elderly parents. So, if you are going to put your money in fixed deposits, it will be another challenge as interest rates are rather low. That is why we need to look for investments that offer returns beyond the inflation rate.”

Given the circumstances, it is pertinent for those just starting work or in their mid-career journey to think about their goals and responsibilities and start saving accordingly, said De Alwis. “How much do you need to save? According to the Organisation for Economic Cooperation and Development, on average, one should save at least 33% of their income while working. And by the time they reach retirement, Malaysians should look at building a nest egg that is 12 to 14 times larger than their last drawn annual salary.”

The Private Retirement Scheme (PRS) is another savings option to consider, said De Alwis. The scheme offers a maximum tax relief of RM3,000 to contributors. Under Budget 2017, RM165 million was allocated to the PRS Youth Scheme (for those aged 20 to 30), where the government will give a one-off RM1,000 in PRS accounts. The incentive was previously RM500.

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Retirement Planning: Perception of retirement must be changed.

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RETIREMENT PLANNING

The coming third age crisis

It is becoming more difficult today to have adequate funds for retirement with the growing number of risks and challenges. But with a carefully planned strategy, it is possible for individuals to accumulate enough wealth to enjoy this phase of life. This was the central theme at The Edge-Kenanga Retirement Forum 2017, which was held last Saturday.

In his welcome speech, The Edge editor-in-chief Azam Aris said individuals are facing unprecedented challenges in planning for their retirement. Yet, many are unprepared for it.

"The third age crisis is coming. Factors like the prolonged period of low growth and low returns, rising healthcare costs, increasing inflation and longevity risk have created a new reality for individuals," he said.

"For many of us, this means having to rethink and re-evaluate our strategies to ensure that we do not outlive our savings. This needs to be done as early as possible."

Four speakers addressed various aspects of retirement planning. Kenanga Investors Bhd CEO Ismitz Matthew De Alwis gave an overview of why retirement will be more challenging than before. Farah Deba Mohamed Sofian, chair of the Society of Trust and Estate Practitioners (STEP) Malaysia, spoke about the mistakes individuals should avoid making when it comes to estate planning.

Aged Care Group Sdn Bhd CEO Dr Carol Yip talked about the long-term care landscape in Malaysia and the options available for individuals. Chan Ken Yew, head of research at Kenanga Investment Bank Bhd, wrapped up the forum by offering an outlook for the local market next year and some strategies that investors can adopt.

The forum was organised by The Edge in partnership with Kenanga Investors Bhd and KL Eco City.

Perception of retirement must be changed

BY PATHMA SUBRAMANIAM

Malaysians must alter their mindset of what retirement is and view it as a chapter instead of an end point so that they can plan better for what is to come.

According to Kenanga Investors Bhd CEO Ismitz Matthew De Alwis, most people go through their working years thinking of retirement as the final destination. This perception is one of the main reasons many people fail to plan and sustain their life savings in their retirement years, he said at The Edge-Kenanga Retirement Forum 2017.

"But the truth is, retirement is another phase of life. If you really observe, every phase of life — from childhood to young adulthood, to starting a family — lasts an average of 25 years. So why should retirement be any different?" said De Alwis.

Planning well is even more pertinent today with life expectancy rates increasing and birth rates dropping. Malaysia also faces the prospect of a growing ageing population and workforce, De Alwis told participants during his presentation on why retirement was going to be more challenging than before.

"Just look at our neighbours across the Causeway. People in their sixties and seventies are working at fast-food joints as cleaners and servers. Why do they need to continue working at an age when they should be putting up their feet and relaxing?" he said.

"A friend recently argued that Singapore is rich enough to provide the elderly with a social safety net similar to some Scandinavian countries. But what many people fail to grasp is that in those countries, their citizens are taxed more than 50% (so that aged care services, for example, can be rolled out). Can such a high tax regime be imposed in Singapore, or even Malaysia for that matter?"

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Despite numerous research and statistics that set alarm bells ringing, most Malaysians are not prepared to retire, taking into consideration the rising cost of healthcare, increasing inflation and longevity risks. "By 2040, 19.8% of the population will be made up of senior citizens. Besides living longer, we have to worry about inflation. Our headline inflation is at 3.6%, but there are categories of inflation, such as education and healthcare expenses, to consider," said De Alwis.

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Given the circumstances, it is pertinent for those just starting work or in their mid-career journey to think about their goals and responsibilities and start saving accordingly, said De Alwis. "How much do you need to save? According to the Organisation for Economic Cooperation and Development, on average, one should save at least 33% of their income while working. And by the time they reach retirement, Malaysians should look at building a nest egg that is 12 to 14 times larger than their last drawn annual salary."

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Estate planning an important component

BY OLIVER CHRISTOPHER GOMEZ

With the average lifespan in Malaysia on the rise, estate planning is becoming a priority, not just among retirees but the young as well. At *The Edge*-Kenanga Retirement Forum 2017, Farah Deba Mohamed Sofian, chair of The Society of Trust and Estate Practitioners (STEP) Malaysia, spoke about some common estate planning pitfalls and how to avoid them.

"To me, [estate planning] is about taking a wholesome approach. It is about money, moral values and being able to sustain your family across generations," she told the crowd.

Farah said retirees often underestimate the total value of the assets they own. "In fact, once people reach the age of retirement, many of them are sitting on small fortunes. This makes estate planning all the more important," she added.

"We consider a 'small estate' to be anything below RM2 million. That might not sound like a lot money, but it is. If you own a property in Damansara Heights, that in itself may already exceed RM2 million.

"But, say, you own properties in Shah Alam, Klang or Kepong, your estate would be worth about a million ringgit, without even counting your bank and EPF savings and other assets."

Farah said it was very important for people to be mindful of the geographical spread of their assets. "Generally speaking, my advice is that, if your assets are in Commonwealth countries, then it is a good idea to maintain a single will for these multiple jurisdictions. But if you have assets in non-Commonwealth countries, you may want to get a lawyer in those countries to help manage your assets," she added.

"And following on from this, you must know that under the new Common Reporting Standard, [international] banks have the legal duty to collect your data and report it to the local tax authorities. So, please note that if you have assets in other countries, you cannot hide them. There are taxes and other legal considerations for you to consider and act on."

Farah also spoke about four issues that should be addressed in a will where applicable — trusts, EPF nominations, insurance nominations and business continuity.

A living trust is created during an individual's lifetime, allowing the person to have a say in the transfer of his assets, without having to resort to probate. A trustee holds legal possession of the assets that belong

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Adopt smart beta portfolio strategy for better returns

BY KUEK SER KWANG ZHE

Investors can adopt a smart beta portfolio strategy by buying into the top 15 stocks on the FBM KLCI to generate better returns for their retirement, said Chan Ken Yew, head of research at Kenanga Investment Bank Bhd at *The Edge*-Kenanga Retirement Forum 2017.

He pointed out that the top 15 stocks make up about 70% of the index's total weightage. "Based on historical performance, this portfolio consists of only the top 15 stocks. It has outperformed the FBM KLCI for the past 7½ years."

This portfolio also generated positive returns in 2014 and 2015, when the index posted negative growth. In 2014, it generated a return of 3.4%, when the KLCI was down 2.6%. The following year, it saw a return of 7% while the index posted negative growth. These returns are total returns, which take into account the capital gain and dividend yield of a stock, said Chan.

Those who are looking at investing for their retirement can invest in stocks that consistently outperform the market and pay out dividends, regardless of the market conditions, he added.

On the market outlook for 2018 and investing strategies, Chan said with the FBM KLCI hovering at the 1,750-point level, this is a good time for investors to enter the market as local stocks in general are relatively cheap. This is reflected by the price-earnings ratio (PER) of the FBM KLCI, which is at a premium of about 2% against other regional indices.

While the benchmark index has always traded at a premium against its peers, it used to be higher at around 4%. As a result, there has been a lot more buying interest from foreign investors, said Chan.

"Foreign investors are turning into net buyers again in the equity market. Foreign share holding on the FBM KLCI is currently on the higher side, which is good news. As stock prices are still relatively cheap, foreign investors won't sell aggressively [soon] if something happens and the market looks less attractive," he added.

Based on his research, Chan said the ideal buying level is when the FBM KLCI is about 1,750 points. The index is expected to go above the 1,800-point mark at the end of the year.

However, he cautioned investors to be mindful of the risk of an interest rate hike by Bank Negara Malaysia. The central bank could raise the overnight policy rate as the economy seems to be improving better than expected.

INVESTMENT OPPORTUNITIES

According to Chan, there are pockets of opportunities in the power and water infrastructure sectors.

Tenaga Nasional Bhd (TNB) is one of his stock picks. The counter is trading at a PER of about 14 times, which is way below that of the FBM KLCI. The low PER is due to the misperception of foreign investors, said Chan.

"Foreign investors are expecting the government to not hike the electricity tariff [which will suppress TNB's earnings] due to the coming general election. To us, this the wrong perception. Even without the hike, the government will still need to compensate TNB on behalf of consumers. That is why its valuation is low," he added.

The valuations of water infrastructure stocks are expected to hit bottom. There is a positive outlook as water pipes are gradually being replaced. This is expected to reduce the rate of non-revenue water and improve the companies' earnings, said Chan.

Meanwhile, there are potential investment opportunities in the oil and gas, plantation and property sectors. O&G stocks that are trading at low valuations and are expected to benefit from the completion of the Refinery and Petrochemicals Integrated Development Project are favoured, said Chan.

"The project is at the final stage of completion. Some counters, such as Dialog Group Bhd and Serba Dinamik Holdings Bhd, would benefit from this," he added.

The plantation sector has been a laggard since the start of this year as investors have not seen much improvement in terms of crude palm oil (CPO) price movements. "We expect CPO prices to hover around RM2,500 to RM2,600 per tonne. However, if La Niña occurs, prices could go beyond RM3,000," said Chan.

Meanwhile, the valuations of property stocks are near their bottom. "We are looking at it more from a trading point of view. The sector is not so much about earnings, but news flow," he said.

According to Chan, construction counters — which are believed to perform better ahead of the general election — are currently overbought. So, prices are expected to decline going forward.

"These counters used to have a single-digit PER. Now, it is in the mid to high teens. This has prompted us to take a more conservative view," he said.

"Also, if you look at the numbers, construction counters were trading at a low PER in FY2016, when the number of construction projects announced in Bursa Malaysia was high. Now, there are fewer projects, but the valuations are high. If you look at the margins of these companies, they are not as fantastic."

The semiconductor sector, which investors were bullish on in recent years due to the weaker ringgit, is also not as attractive now. In addition to a strengthening ringgit, the global semiconductor up cycle has lasted 22 months and could come to an end in the next six months. This can be seen from the slowing growth of semiconductor sales globally, said Chan.

"The average cycle of the sector is 20 to 26 months, historically. And high growth usually occurs in the early stage. We have turned conservative on the sector as it is now in the 19th month of the up cycle," he added.

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Retirement Planning: Give some thought to long-term care

'Regularly go through your will'

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to the beneficiary, all while the trust maker is still alive.

A testamentary trust is created after death via a will. "Hence, it is left to your executor to form the trust for the benefit of your beneficiaries named in the will. My advice for most people is not to prolong the distribution of the assets unless your executor is a corporate trustee," said Farah.

She added that corporate executors, who manage estates in the course of their business, tend to have a number of advantages over the practice of appointing a next of kin as executor. "If your next of kin is efficient and trustworthy, then by all means, appoint a family member as your executor. But if you find that you cannot trust anyone and management of the estate has to go outside of the family circle, then you are better off appointing a corporate executor.

"A corporate executor is always a better option due to the level of accountability and professionalism. If you need to, you can always sue the corporate executor. But what you never want to have is your children suing each other [over the mismanagement of the estate]."

Corporate executors will be able to provide comprehensive profit and loss statements on the estate, and be held accountable to the numbers. "They will give you an account of how your money is kept and spent as well as what losses your estate may have incurred and why," said Farah.

She added that retirees also need to consider the fate of any businesses of theirs in the event of their death. "Your next of kin may have the right to the business, but you need to consider if they have the ability to manage it or if it would be better left to a manager in the business who is not part of the family."

At the same time, people tend to underestimate their liabilities. "Why is estate planning important? It is meant to prevent uneasiness between heirs. It is about managing expectations and how your estate pays off your debts. People tend to forget housing loans, credit card payments and personal guarantees. How will these be addressed by your estate?" said Farah.

According to her, she has had to manage estates that had racked up more credit card debt than property payments, effectively rendering the estate bankrupt. Staying ahead of these kinds of liabilities will prevent much frustration for your next of kin.

Another big issue Farah had noticed in estates has to do with guarantees that a person undertakes in the course of his life. "A lot of times when we deal with estates, we run into issues when assisting a guarantor to discharge his duties, simply because guarantees extend beyond the grave. So, be very mindful of people like your husband, wife or children, who may be affected by the guarantees you undertake."

By underestimating their estates, retirees fall into the trap of not doing enough to secure them. "I am sure that if you look online, you could simply download a template for a will. But surely, your life is not that simple? Your children aren't simple, your in-laws aren't simple. So, should you be putting your entire life into a simple document that you downloaded?"

Another major trap, according to Farah, is retirees neglecting to update their wills. Her advice is to regularly go through the contents of your will so that the document accurately reflects your current financial goals and priorities.

"In your thirties, your needs will be focused solely on your children. So naturally, your will would have provisions for legal guardianship of your children. But much later on in life, when you have grandchildren, you may want to take care of them by leaving some money to your now-adult children," she said. ■

Give some thought to long-term care

BY **TAN ZHAI YUN**

Malaysians should plan ahead to ensure that they can pay for their long-term care after retirement. While many think they can rely on family members to support them, their children may not be able or willing to do so, said Dr Carol Yip, CEO of Aged Care Group Sdn Bhd, at *The Edge*-Kenanga Retirement Forum 2017.

Today, cost is a challenge for the elderly who want to live in aged care facilities. According to Yip's study on more than 400 elderly Malaysians living in nursing homes, 75.5% of them cannot pay for their own care anymore and almost all of them do not have any funds left in their Employees Provident Fund (EPF) accounts. Based on her calculations of current nursing home charges and medical expenses, the basic cost of living in a nursing home can be easily RM240,000 for five years.

"In Malaysia, we have a three-pillar retirement system. You are either a civil servant or a private employee, where you contribute to the EPF. If you do not contribute to the EPF or do not have pension income, you are on your own," said Yip.

"You need to invest your money, either through your savings, shares or properties. They are very shaky, so you need to make sure one of your financial pillars is very strong. The last resort — the fourth pillar — is your family as your support."

According to the World Bank's five-pillar retirement income system, the first pillar is the state pension; the second is mandatory savings, such as the national saving fund or government pension fund; the third is voluntary savings; while the fourth is other financial sources, including family and community support.

Yip suggested listing out all your assets and deciding what you are willing to liquidate to pay for your care. Income sources that you can look at include unit trusts, fixed deposits, EPF savings, shares, liquid assets and life insurance cash value when the policy matures.

"For those who have bought unit trust funds, there is no standing instruction that says if I check into a nursing home, please sell these for me. So, this is another thing we can do — have a standing instruction that says, if I check into a nursing home, please sell it at whatever price and turn it into cash for me," she said in her presentation, "Planning for long-term care: What is the cost of your peace of mind?".

The cash generated from the sale or liquidation of assets can be put into a trust such as CareTRUST, designed by Kenanga Investment Bank Bhd and Managedcare Sdn Bhd, a wholly-owned subsidiary of Aged Care Group. The account holder can identify three beneficiaries and designate the money to pay for his care in due course. Another feature the product offers is access to a care administrator, who will monitor the account holder and help plan for his needs.

Q If a home is not the best place for an aged family member to receive care, does your organisation provide training for ordinary people to manage their elderly parents who are unable to help themselves? **(Farida Idris)**

A We do provide training to communities via workshops that we organise. At these workshops, our registered nurses guide would-be caregivers through the expectations, challenges and basic skills they need to prepare for the task, as well general handling of ageing parents. We also provide one-to-one training to individual caregivers as well as long-term care assistance and resources. – **Yip**

Yip said it is time that people look into the advantages of the burgeoning end-to-end aged care facilities around the country. This way, the elderly will live in communities where they continue to receive regular medical attention and care. This is similar to retirement villages in other countries.

"We are talking to developers as we want to build a gated and guarded community for seniors, where the apartments are wheelchair-friendly and come with a telehealth system that monitors your health. So, if you want a meal, you just have to call. This is what you see overseas," she added.

Aged Care Group specialises in providing integrated care services to the elderly, such as retirement villages and nursing homes.

Yip also said there is a pressing need for such facilities as people start to live longer and children may not have the time or capability to take care of their elderly parents. This is particularly pertinent for senior citizens in their "fourth age" — typically between 75 and 100 years old — which is the time when one needs 24-hour care.

Along with better regulations to ensure quality care, aged care facilities should have good design and architecture, like a hotel that takes care of your needs, said Yip. Some existing projects with this vision are the senior living resort Eden-on-the-Park in Kuching, Sarawak, and the retirement village Green Acres in Ipoh, Perak.

With good facilities and environment, the taboo of having the elderly cared for in aged care facilities is fading away. "I actually get calls asking, 'When is my facility ready?' There are people looking forward to such facilities. So, I think it is no longer a taboo. I think once the facilities are up, they can see how nice it is, so they don't mind," said Yip. ■

(From left) *Personal Wealth* editor Tho Li Ming, Setia Sky Seputeh senior sales and marketing manager Nat Quah, Niche Development deputy general manager Kam Tek Kong, Society of Trust and Estate Practitioners Malaysia chair Farah Deba Mohamed Sofian, Aged Care Group CEO Dr Carol Yip, Kenanga Investors Bhd CEO Ismitz Matthew De Alwis, *The Edge* editor-in-chief Azam Aris, Kenanga Investment Bank Bhd head of research Chan Ken Yew, S P Setia Bhd head of sales and marketing (integrated and international division) Daniel Ong and KL Eco City sales and marketing manager Gary Chan

Azam giving his welcome speech

Forum attendees checking out a model of KL Eco City

A participant discussing a product with a Kenanga Investors licensed adviser

Participants asking questions during the Q&A session

Kenanga Investors head of marketing and retirement solutions and senior vice-president Sharon Leong (left) with Farah Deba

The crowd listening intently to a presentation