Kenanga Investors

Date: 13 March 2017

WHAT'S NEXT FOR PRS?

(The Edge – Personal Wealth)

Many of the Private Retirement Scheme funds have seen mediocre returns over the years, but a number of them have performed well in the past 12 months. Industry players share their views on the voluntary pension scheme.

By: *Pathma Subramaniam*

THE performance of the funds under the Private Retirement Scheme (PRS), which was established almost five years ago, has been lacklustre at best. The poor to negative returns of many of these funds may have discouraged individuals from participating in the scheme, say some industry observers.

Husaini Hussin, who recently took the helm at the Private Pension Administrator Malaysia (PPA), acknowledges the poor performance of these funds but says the members need to take a long-term view. "Members need to consider how the fund will grow in the future, in the long run, and not so much the fund's immediate gains," says the CEO. "We cannot comment on the overall performance. That is now how we do the assessment. Some funds are doing well, some could be better. But hopefully, in the long, run, when members make their monthly contributions, they will be able to take advantage of the dollar-cost averaging because in the long term, the market tends to offer good returns."

According to Morningstar's monthly PRS performance report, more than one-third (24) of the 56 PRS funds saw a cumulative return of less than 3% over a one-year period ended Jan 31 – lower than local fixed deposit rates. Over a two-year period, 20 funds saw cumulative return of less than 3%. Of these funds, 11 recorded negative returns. Over a three-year year period, 22 funds registered returns of less than 3%. Husaini points out that there are different types of funds, under the PRS, catering for different investment needs and risk appetites. Hence, the retursn are variable. "They have different investment objectives, cater for different risk appetites, have different risk exposure and have different underlying assets," he says.

"All eight fund providers are under the purview of the Securities Commission Malaysia (SC). And yes, we should like competitive returns across the bpard. But we should also remember that PRS is about choice. So, if you do not like the fund you have invested in, you can switch providers. This option is available to members. "The PRS is a vehicle to help you save more for your retirement. Using the information you get on the website and from the distributors, you can decide which funds suit you best based on your risk appetite and long-time objectives." It is worth noting that invesments in funds such as AmanahSaham Nasional Bhd (ASNB) do not incur sales or annual management fees – unlike PRS funds, which can impose an upfront sales charge and annual management fee of up to 3%. "Yes, you can invest money in ASNB or pilgrimage fund Lembaga Tabung Haji, in additiona to the Employees Provident Fund (EPF). But one thing that is truly different in the specifics is that the PRS is designed to protect your nest egg for retirement," says Husaini.

"You may withdraw up to 30% of your money on annual basis. But you must keep 70% in your account until you reach the age of 55. "As the government is trying to grow the segment to complement EPF contributions, it has given individuals incentives such as a tax relief for the contributions up to RM3,000. Employers can claim up to 90% in corporate tax relief. These incentives are not avialable with any other savings or investment plans." The PPA is the central administrator of the PRS, approved by the SC to oversee and promote the growth of the indudstry, create general awareness and educate the public on the scheme as well as protect members' interests. Affin Hwang Aseet Management Bhd chief marketing distribution officer Chan Ai Mei says the benefit of investing in PRS funds is that while the more aggressive ones are targeted at growth, all providers are mandated by the SC to ensure that capital preservation remains the key investment strategy as the investments are essentially retirement savings. “We encourage individuals to save more and not rely on a publicly manageed retirement scheme due to the increase in life expectancy, inflation, cost of living and healthcare costs,” she says.

Nevertheless, Chan reminds contributors that unlike the EPF, the PRS lacks a capital or minimum return guarantee. “All investments carry some sort of risk and contributions to the PRS funds are not excluded. Thus, it is important that contributors understand the risks involved, have basic knowledge of investments and engage a provider that understand the risks involved, have basic knowledge of investments and engage a provider that understands their needs and requirements. In short, choose wisely and invest regularly,” she says. Principal Financial Group Asia chairman Rex Auyeung says and pension system needs time to grow, especially a voluntary scheme such as the PRS, for it to complement the existing retirement structure. He points out that the EPF has taken more than 60 to become what it is today. “The EPF has a large presence in the local equity market. So, when it sneezes, everyone is bound to catch a cold. I would rather have another system like the PRS, despite its size today. We need to look at it long term and let the funds grow,” he says on the sidelines of the SC’s International Fund Forum 2017, which was held earlier this year. Auyeung has been instrumental in Principal Financial Group’s expansion

In Asia over the last four decades. In 1995, he group partnered CIMB Group’s asset management arm to form CIMB-Principal Asset Management Bhd, which has a presence in Malaysia, Singapore, Indonesia and Thailand.

SUPPLEMENTING RETIREMENT SAVINGS

The PRS is a defined contribution pension scheme. It allows employees, employers and the self-employed to voluntarily contribute to an investment vehicle for the purpose of building up their nest egg for retirement. The scheme was launched in July 2012 to encourage pro-active savings. The move was aimed at supplementing employees’ statutory contributions to the EPF. The PRS was set up because most Malaysians do not have enough savings to meet their retirement needs due to the increasing life expectancy and rising cost of living.

"PRS is meant to complement the exisitng mandatory provisions. The scheme seeks to enhance the choices available to Malaysians to voluntarily supplement their retirement savings under a well-strucured and regulated environment," says RHB Asset Management Sdn Bhd CEO Ho Seng Yee. "The availability of the PRS has made it convenient for the public to save for retirement according to their comfort levels and affordability in a disciplined way through regular and consistent contributions to the scheme. With a national focus on more voluntary savings, the PRS is a the platform to kick-start this initiative by providing a universal, flexible and tailored solution to the individuals." Auyeung says an alternative retirement planning system helps to prop up the capital markets as regular inflows stabilise fluctuations. "On the fixed income side, this kind of regular savings for retirement will create a bond market, which will help the development of the overall capital markets because wwe hav to do assets liability matching. So, we have to make sure we are invested for the long term to match the long-term commitments we have made. From an equities and fixed-income perspective, you already see the benefits. "I believe that both the EPF and PRS can go together. I have participated in discussions about whether it should be A or B. But to me, it should be a two-legged approach. Now, you have a much stronger left foot called the EPF and a very short right foot called the PRS. We need to grow the PRS so that they can move seamlessly together." According to figures released by the PPA, the number of PRS contributors increased from 179,250 to 221,434 or 23.53% in 2016. Ho notes that while the update is comparatively smaller, the number has risen steadily over the years.

"This may be due to the saving and spending habits of the general public as well as the mindset of most Malaysians who believe they have the EPF as their retirement pillar, without being aware that only 22%of active EPF conributors have the minimum savings of RM196,800 – which has now been reaised to RM228,000 (effective Jan 1) – to sustain them in their retirement. The introduction of the PRS gives the self-employed and others who do not have access to pension plans a flexible alternative to save for their retirement," says Ho. As at last May, the EPF had 14.72 million members, of which only 6.83 million are active and contributing members (as at September 2016). In its annual report, the EPF highlighted that in 25 some of the 68% of its members aged 54 had savings of less than RM50,000. It also found that only 18% of its members achieved the minimum savings amount according to their age – a far cry from the

EPF's plan to get at least half of its members to meet the minimum savings of RM196,800 in the next four years. Many of the PRS funds invest in existing unit trust funds and do not have capital guarantees – unlike the EPF, which guarantees a return of at least 2.5% annually. To get the scheme off the ground, the government introduced a maximum tax relief of RM3,000 for those who contribute to the PRS. Those who pay the highest tax rate of 26% could reduce their taxable income to RM780 if they applied for a rebated. Under Budget 2017, RM165 million was allocated to the PRS Youth Scheme (for those aged to 20 to 30). The government has pledged to contribute RM1,000 (up from RM500 previously) to youths who contribute at least RM1,000 to the PRS before Dec 31, 2018. This segment had grown to 18% at the end of last year from 7% in 2013, according to the SC's 2016 annual report, released on March 9.

The eight approved PRS fund providers in the country are Affin Hwang Asset Management, AIA Pension and Asset Management Sdn Bhd, AmFunds Management Bhd, CIMB-Principal Asset Management Bhd, Kenanga Investors Bhd, Manulife Asset Management Services Bhd, Public Mutual Bhd and RHB Asset Management.

THE ILLUSION OF HAVING ENOUGH TO RETIRE

Although the statistics indicate that there is a great urgency to save more for retirement, a large segment of the population continues to believe that their EPF savings will be sufficient for their retirement, says Kenanga Investors executive director and CEO **Ismitz Matthew De Alwis**. "But over the past year, investors have become mindful of how far their EPF savings can support them once they do not have a sustainable income. Recently, the heavily debated topic of whether the withdrawal limit should be raised to age 60 has let to many contributors becoming more aware of their EPF savings and the longevity of it," he says. "However, this was still not enough to prevent many from falling for the 'EPF illusion'. Research and case studies have clearly shown that many Malaysians will not have enough to spend during their retirement and on average, those who are employed tend to utilise all their EPF savings within a short period of time. In a recent study conducted by the EPF, 70% of contributors who withdrew their savings at age 55 finished their savings within a decade of their retirement." While there are other options, such as investing in real estate, which has stood the test of time, De Alwis points out that cashing out of such investments is a lot harder as saleability is a concern, depending on the location and market timing.

"Don't put all your eggs in one basket'

He says there is no "one single or best way to save for retirement" and that even the PRS should be supplemented with other investment and savings vehicles.

"A well-balanced portfolio includes a healthy mix of equities, fixed-income securities, real estate and cash equivalents, taking into account your risk tolerance level, desired investment duration and financial goals. The phrase 'Don't put all your eggs in one basket' comes to mind here. Diversification is the key to building a solid retirement portfolio.

"That is why Malaysians need to consider a more holistic strategy when they plan for retirement, one that covers their financial, health, physical and social needs. The lifestyle you lead in your fifties and sixties could be different from when you are in your seventies and eighties. "Early savings and holistic retirement plans are needed to secure their future needs. Once they are able to gauge those needs, they can estimate how much they should be saving in preparation for retirement."

While the PRS remains a low-key investment, Manulife CEO and executive director Wong Boon Choy points out that the scheme's assets under management (AUM) grew from RM1.17 billion in 2015 to RM1.51 billion last year – outpacing the AUM growth of the unit trust industry, which rose 10.55%. "I believe it will continue to grow significantly as the PRS market is relatively untapped, mainly because there is little incentive for PRS consultants to promote the scheme as the investment amounts are usually very small compared with those for unit trusts," he says. This has been a long-standing problem as agents of the fund providers are not incentivised to promote the PRS if the sales commissions are lower than those for unit trusts or investment-linked funds. While there aren't any plans to address this issue, the PPA intends to reduce the paperwork involved for PRS agents, says Husaini.

Having to lock away their savings has deterred PRS members from increasing their contributions, says Affin Hwang's Chan. However, she urges prospective members to understand the objective of the lock-in period. "It is to ensure minimal leakages from the person's retirement funds as it is human nature to dig into the funds if there aren't any restrictions or deterrents for things like purchasing a house, paying for their children's education, medical fees and so on," she says.

Annual withdrawals from the PRS can be made from the second account a year after the member's initial contribution. However, there is an 8% tax penalty per withdrawal. Members are not required to provide a reason for the withdrawals. Wong believes that the tax relief, capped at RM3,000, has been a major factor in getting people to invest in the PRS. "We can confidently say this as we noticed a spike in PRS contributions in November and December for the past three years due to the final rush for the tax relief before the year end," he says. Chan says Affin Hwang's PRS funds have received positive feedback, particularly from those aged 35 and above. She adds that this age group is more acutely aware of the fact that mandatory savings are insufficient for retirement.

"The rising cost ofliving and inflation have changed their mindset. They are more focused on retirement and willing to contribute more thant RM3,000." To further boost participation, CIMB-Principal Asset Management CEO Munirah Khairuddin suggests that some form of incentive be made available to lower income groups to get them thinking about retirement planning and encouraging them to save in the PRS.

"That is because they do not see personal tax relief as an encouragement due to the insignificant savings gained from it. More often than not, tax benefits do not apply to low-income earners," she points out. To reach a larger section of the Malaysia population, more employers need to adopt the PRS and communicated its benefits to their employees as well as see it as

FUND TYPES

The Securities Commission Malaysia (SC) requires all PRS providers to offer three core funds – conservative, moderate and growth. The asset allocation for core funds is meant to address the different risk appetitesby age category.

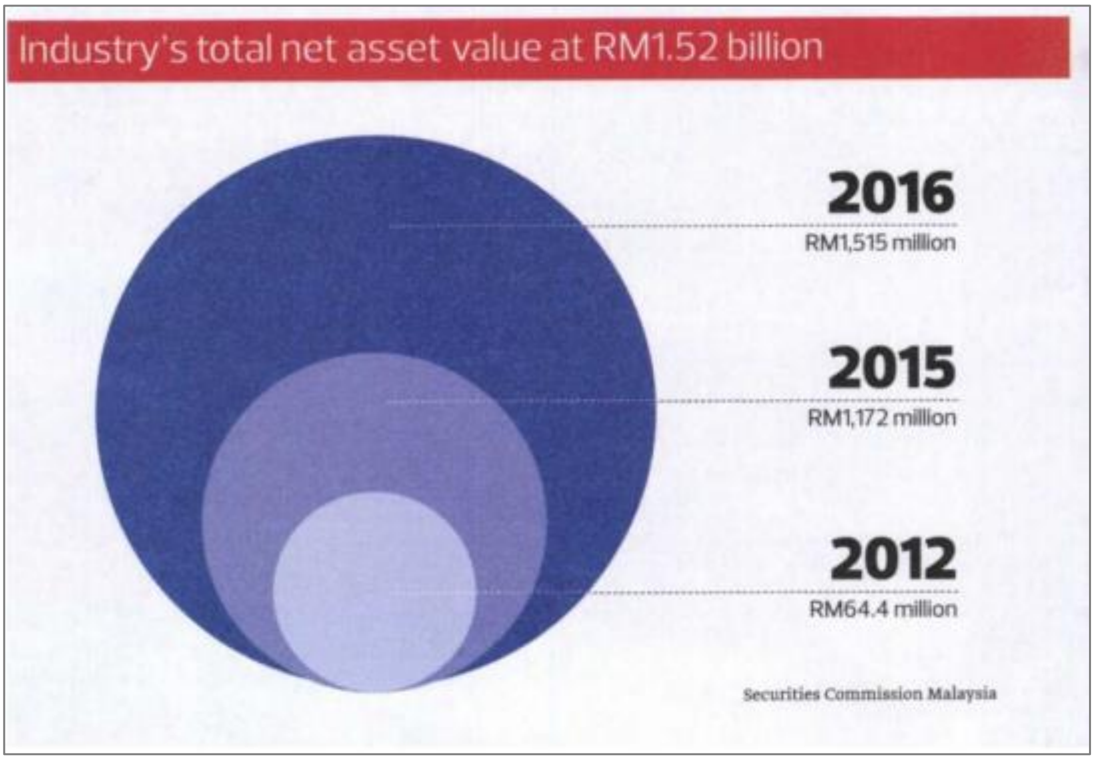
Investors can personalise and select a combination of funds that best suit their risk-return profile. They are also given the flexibility to choose funds that invest in local and regional markets.

a means of retaining talent, says Auyeung. This segment appears to be gaining traction. According to the SC's latest annual report, continuous engagement with employers has seen the number of corporates more than double to 477 in December last year from 161 in 2015. Auyeung says apart from large corporations, the PRS should be designed to get the small and medium enterprises on board as well. "I hope that the PRS providers will come up with products that encourage more participation. When the government first created the PRS, the point was to keep it simple so that people could understand and participate in it.

"But as the market continues to develop and evolve, they may have to start thinking about products that can increase participation – different providers may take different approaches but to me, a PRS product should not be a regular unit trust product. I always draw a line between regular retail funds and PRS funds. The PRS is for people to set aside money for retirement, while a regular unit trust fund is an investment that can be redeemed at any time.

COMMENDABLE PERFORMANCE

Although a large number of PRS funds have had a bumpy ride in the last three years, many of them performed commendably in the one year period ended Jan 31. Some even registered double digit returns. According to Morningstar's monthly PRS performance report, the CIMB-Principal PRS Plus Growth A Fund which has a fund size of RM25,495,281 – was the top performer in the Malaysia Aggressive Allocation category. Last year, it registered the highest cumulative return of 14.65% out of 16 funds. The Affin Hwang PRS Conservative fund saw a cumulative return of 4.79% – the best performance in the Malaysia Cautious Allocation category. CIMB-Principal's PRS Plus Moderate A, C and X funds were the best performers in the Malaysia Moderate Allocation category, all with a cumulative return of 13.34%. Interestingly, some of the best performing PRS funds are in the non-core categories. The CIMB-Principal PRS Plus Asia Pacific Ex Japan Equity A, C, and X funds came out tops with cumulative returns of 21.58% and 21.6% respectively.


Industry's total net asset value at RM1.52 billion
2016
RM1,515 million
2015
RM1,172 million
2012
RM64.4 million
Securities Commission Malaysia

ENDS

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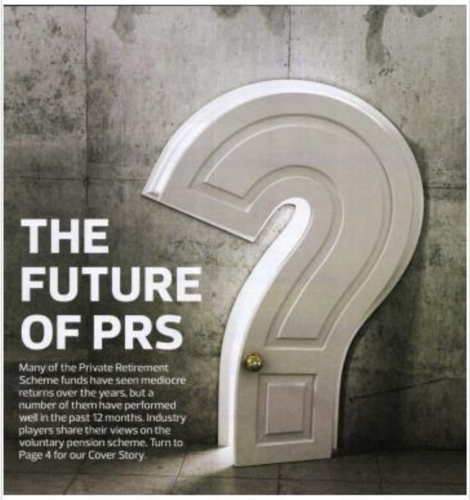

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BY PATHMA SUBRAMANIAM

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Commendable performance

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Interestingly, some of the best performing PRS funds are in the non-core categories. The CIMB-Principal PRS Plus Asia Pacific Ex Japan Equity A, C and X funds came out tops with cumulative returns of 21.58%, 21.6% and 21.6% respectively.

FUND TYPES

The Securities Commission Malaysia (SC) requires all PRS providers to offer three core funds – conservative, moderate and growth. The asset allocation for core funds is meant to address the different risk appetites by age category. Investors can personalise and select a combination of funds that best suit their risk-return profile. They are also given the flexibility to choose funds that invest in local and regional markets.