A Simple Guide to Retirement Investment

MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

25 Suppose a person starts working at the age of 25

and retires at the age of 65

65

Average life expectancy of about 85 years

85

- 40 years to save for retirement
- To cover the needs of 20 years of retirement

To enjoy a certain level of protection after you have retired, **it is important to start planning for your retirement as early as possible**

Estimating Your Retirement Needs

The "Rule of 123"

To realize your ideal retirement life, you should start by estimating the amount of retirement savings you will need. You may make reference to the "Rule of 123":

1 stands for your expenses in one month, i.e. your anticipated average monthly expenses during retirement.

2 stands for two numbers relating to years: first, the number of years before retirement, and second, the expected number of years of retirement.

3 stands for three percentages: the average inflation rate, the expected rate of return of your savings or investments before retirement, and the expected rate of return of your savings or investments during retirement.

Retirement Planning Calculator

Online tool that can help estimate retirement needs

Mobile app

(in Chinese only)

MPFA website

樂享退休GPS

Accumulating Wealth
for Your Retirement

Risks Associated with Retirement Planning

1 Longevity Risk

Retirees may live for more than 20 years after retirement. The longer the retirement period, the higher living and medical expenses will be.

2 Inflation Risk

Inflation causes currency depreciation. If the returns from your savings or investments are lower than inflation, then in the long run your purchasing power will decrease.

3 Investment Risk

To increase retirement savings, some people choose to invest in investment products that have higher expected returns, such as stocks. However, investment products with higher expected returns also carry relatively higher potential risk.

Investment Risks and Returns

A good retirement investment portfolio needs to balance risks and returns. One of the ways to manage investment risks is through diversification. This involves diversifying your capital across different asset classes (such as stocks and bonds) or regions (such as global markets), according to your risk tolerance level.

Choosing MPF Funds

The MPF is one of the key components of retirement investment. Within an MPF scheme you can choose amongst different MPF funds. These MPF funds are the vehicle through which you can make decisions about asset classes and regional investment. There are five major types of MPF fund, namely MPF Conservative Fund, Guaranteed Fund, Bond Fund, Mixed Assets Fund and Equity Fund. Some trustees also offer MPF retirement solutions aiming, like beating inflation or providing stable return or providing regular and stable income to meet the retirement needs of scheme members. In choosing MPF funds, you should first assess your risk tolerance level, which is affected by factors including:

Investment Horizon

that is the number of years before your retirement. If your investment horizon is relatively long, you might consider choosing a more aggressive and higher-risk fund.

Investment Appetite

this is usually shaped by factors such as your personality, past investment experience and investment objectives.

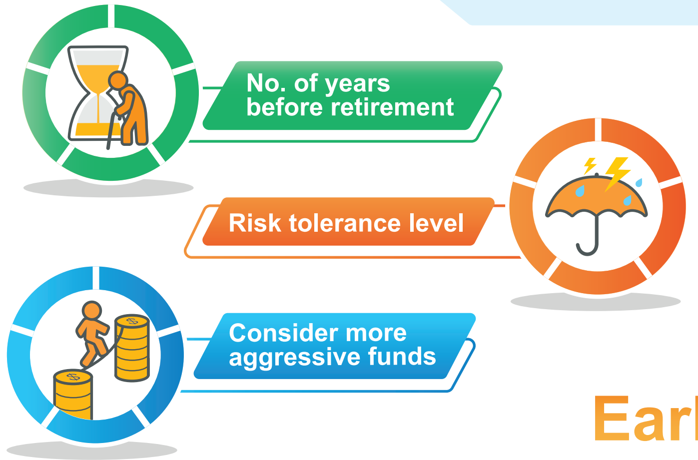
Other Savings or Investments for Retirement

if you have sufficient savings or investments from other sources for your retirement, you might consider taking a more aggressive MPF investment approach.

When it comes to asset allocation, generally speaking if your **risk tolerance level is relatively high**, you may **consider a portfolio containing a higher proportion of higher-risk investments** (such as stocks). If your **risk tolerance level is relatively low**, you may **consider a portfolio containing a higher proportion of lower-risk investments** (such as bonds).

Managing Retirement Investment at Different Stages of Your Life

Retirement investment is a long-term investment and it strides through different life stages. Investors of different ages should all proactively manage their retirement investment portfolios, and adjust them to match with their own needs and risk tolerance level at different times. Here are some examples for reference:

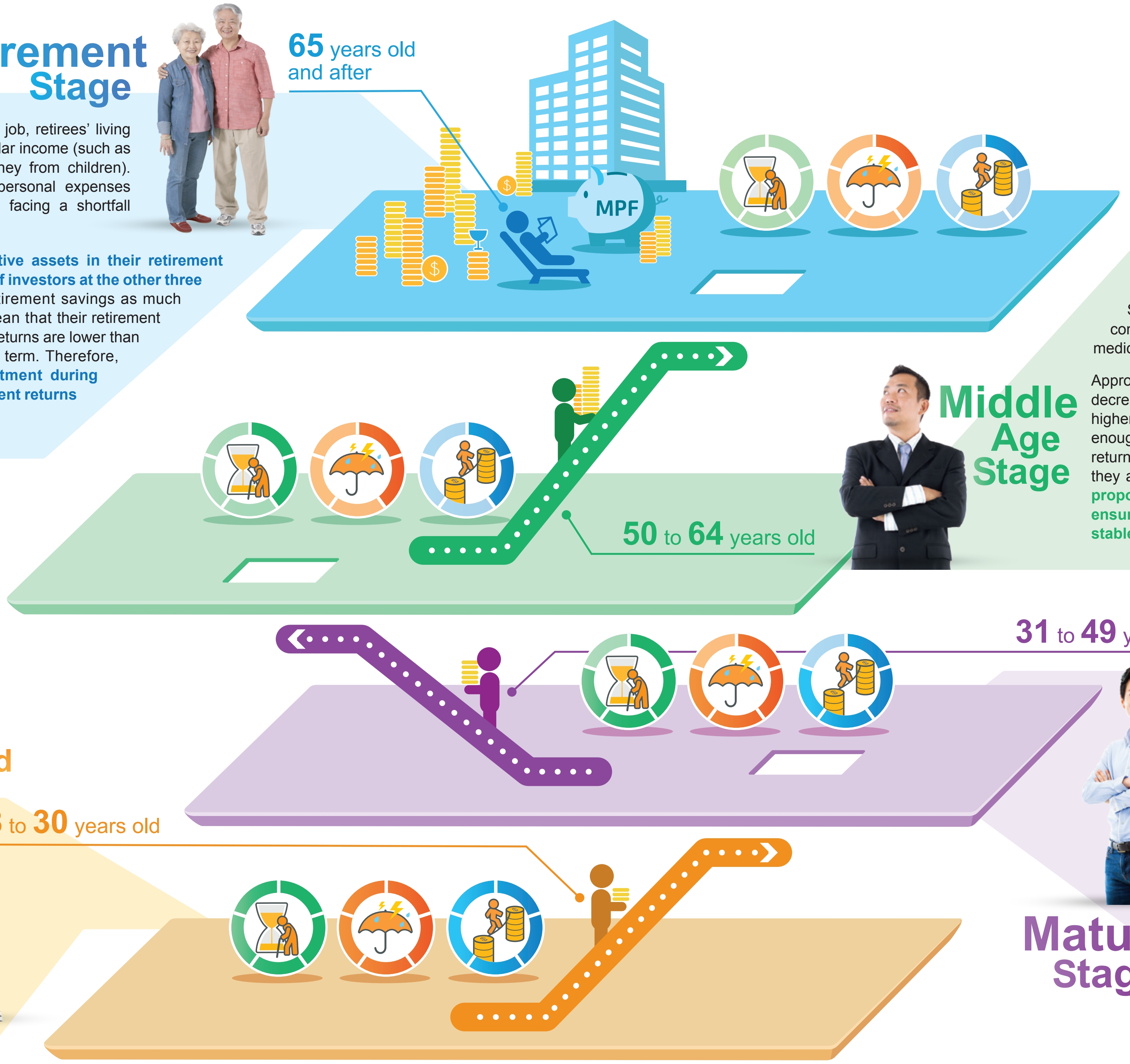


Retirement Stage

65 years old and after

During retirement, without a regular income from a job, retirees' living expenses need to be covered by savings and irregular income (such as investment interest or returns, rental income, money from children). Market fluctuations or unexpected increases in personal expenses (such as medical expenses) may result in them facing a shortfall between income and expenses.

Generally speaking, **the proportion of conservative assets in their retirement investment portfolio should be higher than that of investors at the other three stages**. This will help preserve their accrued retirement savings as much as possible. On the other hand, longevity may mean that their retirement life lasts for more than 20 years. If their investment returns are lower than inflation, their purchasing power will fall in the long term. Therefore, **retirees still need to make appropriate investment during retirement with the aim of ensuring their investment returns can at least keep up with inflation**.



Middle Age Stage

50 to 64 years old

Working people go through the "golden period" of their working life during the middle age stage. This is a time when their income and job position is very likely to reach a peak. They may also have a more concrete estimate of the budget they will require to meet certain obligations, such as repaying mortgage loans, or supporting their parents and children financially. Some of these obligations may even have been completed. On the other hand, as they grow older, their medical expenses are likely to rise.

Approaching retirement, their risk tolerance level also decreases further. If they continue to focus on investing in higher-risk products and the market slumps, they will not have enough time to make up for their losses and their investment returns at retirement will be adversely affected. Therefore, as they approach retirement, they can **gradually increase the proportion of their investments in conservative assets to ensure that their retirement investment portfolio remains stable and healthy**.

Mature Stage

31 to 49 years old

Since they have already been working for quite some time, their income is likely to increase due to their increasing years of experience and job promotion. As a result, **provided that they can carefully control their spending at this stage, they should be able to allocate more money to their retirement investment.**

The period of time before their retirement is becoming shorter and so is their investment horizon. **They can start considering investing part of their assets in lower-risk investment products** such as bonds, to reduce their investment risks and protect their returns in the long term.

Early Adulthood Stage

18 to 30 years old

Young people have a long way to go before retirement. They should **make good use of the power of time and the compounding effect** by making appropriate investments as early as possible. If they do this, **their investments will roll over and increase, generating an even more significant outcome**.

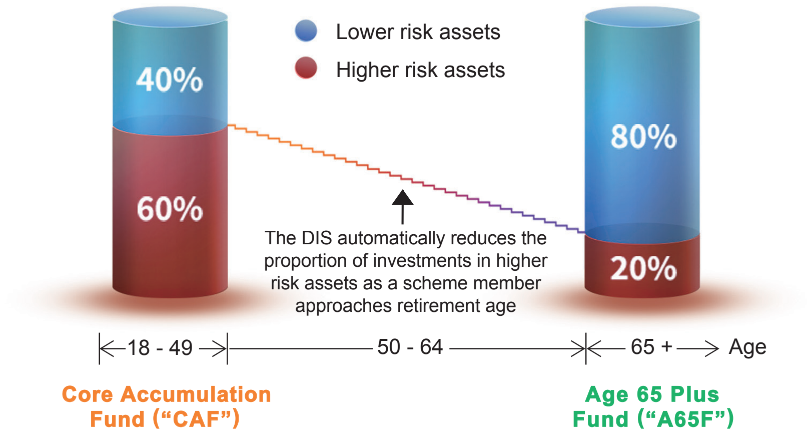
They have a very long investment horizon and there is more time available to mitigate the impact of short-term market fluctuations on their investments. They can therefore **consider choosing more aggressive, higher-risk investment products** with a view to achieving better returns.

The Default Investment Strategy and Retirement Investment

強積金 MPF
預設投資 DIS

MPF scheme members should choose MPF funds based on their risk tolerance levels, investment objectives, personal needs, etc.

If scheme members do not give their trustees any investment instructions for their MPF benefits, their MPF benefits will be invested automatically according to the Default Investment Strategy ("DIS"). Scheme members can also choose to invest their MPF benefits either according to the DIS or in the two individual funds under the DIS.



The DIS is a ready-made investment solution, made up of two mixed assets funds, namely the Core Accumulation Fund ("CAF") and the Age 65 Plus Fund ("A65F"). It has **three key features**:

1. automatic reduction of investment risk as members approach retirement age ("automatic de-risking")
2. fee caps set as 0.95% (and it will be further reduced to 0.85% after individual trustees and schemes have onboarded the eMPF Platform)
3. global investment for risk diversification

Please note that if scheme members invest in the CAF and/or the A65F as standalone investments, rather than as part of the DIS, their investments in these two funds will still benefit from the fee caps and the globally diversified approach, but the automatic de-risking will not apply to these investments.

For more information on the DIS, please refer to the DIS webpage on the MPFA website (minisite.mpfa.org.hk/DIS/en) or contact your trustees.

For more information on retirement investment, please visit the MPF investment education thematic website (minisite.mpfa.org.hk/MPFIE/en).

MPFA Hotline
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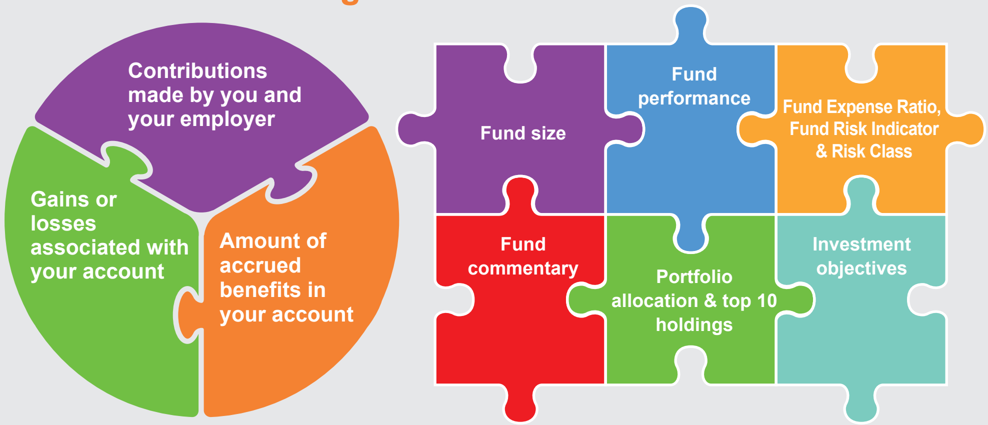
Reviewing
Your Retirement Investment Portfolio

You should regularly review your retirement investment portfolio to ensure that it remains in line with your risk tolerance level. In general, it is good to review your portfolio once every six months or once a year, or when you enter into a new life stage (e.g. purchasing property for self occupation, getting married and raising children) and if necessary consider making timely adjustments to your retirement investment portfolio.

Reviewing Your MPF Investment Portfolio Regularly

The MPF is an important part of your retirement investment. When making regular review, MPF scheme members may refer to the following information:

For Reviewing Your MPF Investment Portfolio



- Annual Benefit Statement
- Fund Fact Sheet

For Comparing the Fee Levels and Other Information Relating to the Performance of Individual Funds

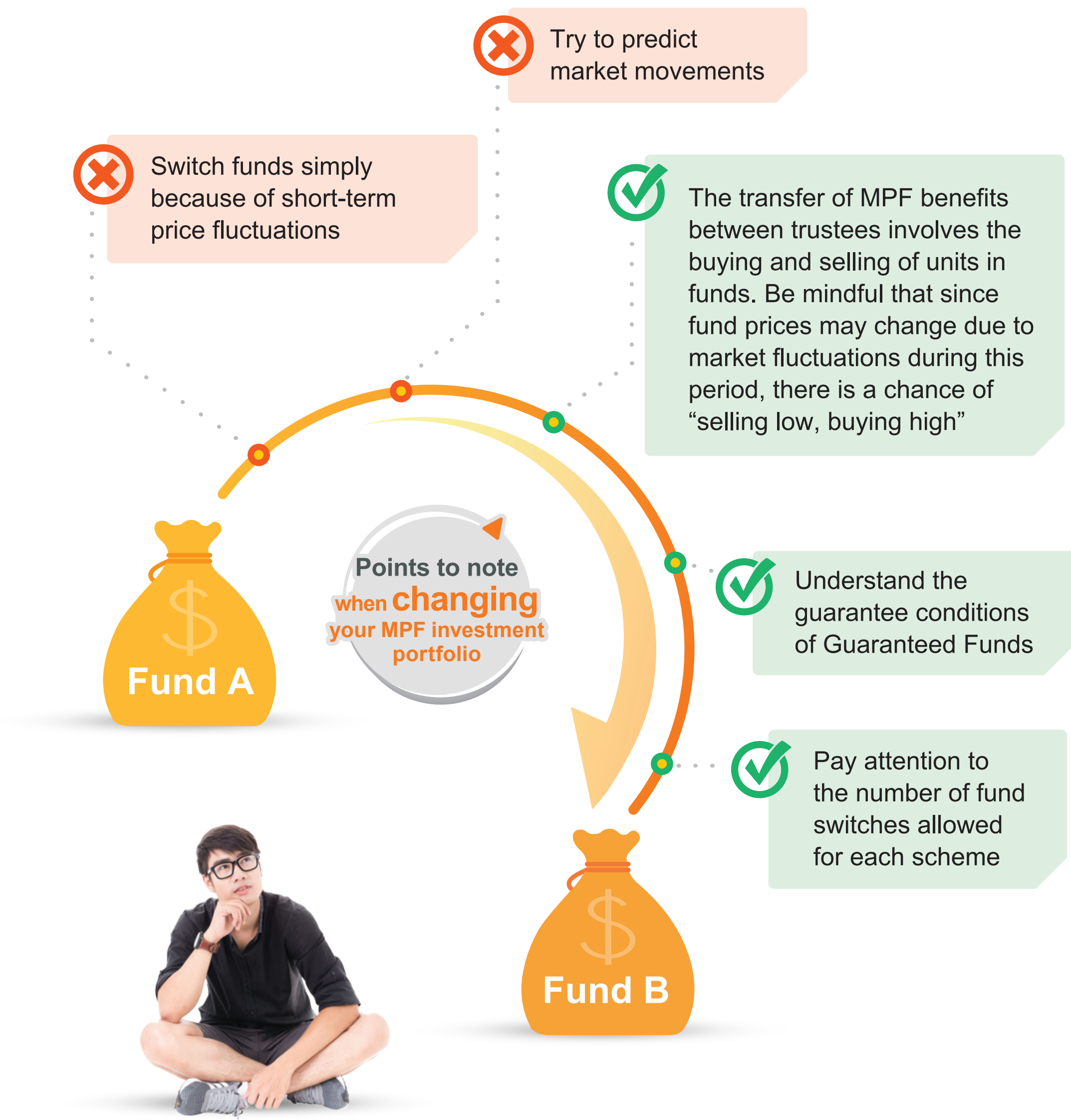
MPF Fund Platform

mfp.mpfa.org.hk/eng

MPFA website

Mobile app

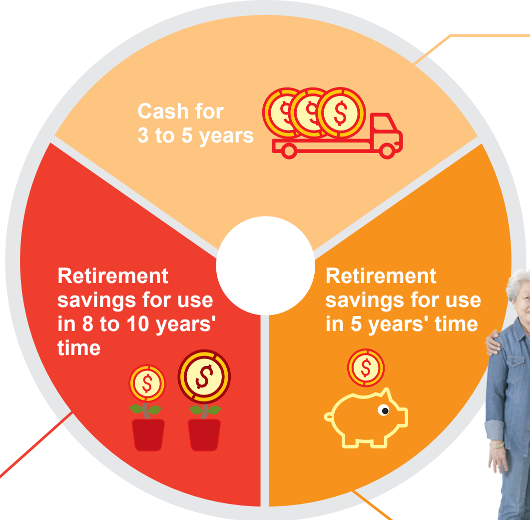
Points to Note When Changing Your MPF Investment Portfolio



Withdrawing
Your Retirement Savings

You proactively manage your retirement investment before retirement in the hope that you will have sufficient savings to cover the needs of your retirement life. During retirement, you will also need to plan the best way of using your savings.

In general, the **retirement savings** you have when you retire should be made up of the following **3** parts:



Cash sufficient to meet your short-term daily needs for about three to five years

A moderately aggressive asset portfolio aimed at achieving a satisfactory value in the long term, for use in eight to ten years' time (such as Equity Funds or Mixed Assets Funds)

A moderate risk asset portfolio that can keep up with inflation for use in five years' time (such as investment-grade bonds or Bond Funds, or endowment insurance policies)

Ways to Withdraw Your MPF Benefits

Once you reach the age of 65, you can choose any one of the following ways to manage your MPF benefits (including the MPF benefits generated from the mandatory contributions and the Tax Deductible Voluntary Contributions):

By instalment

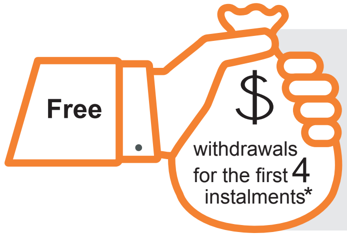
1. Withdraw your MPF benefits by instalments

In a lump sum

2. Withdraw all your MPF benefits in a lump sum

Retain all

3. Retain all the MPF benefits in your account for continuous investment



Trustees are required to process free of charge* withdrawals for the first four instalments of an MPF scheme member in a year. If you intend to withdraw your MPF benefits by instalments, you should contact your trustee to find out more about the withdrawal arrangements before making an application.

* Other than necessary transaction costs which are incurred, or are reasonably likely to be incurred, by the trustee in selling or purchasing investments in order to give effect to the payment; and payable to a party other than that trustee.

You have worked hard for many years and naturally care about the quality of your retirement life. To experience an enjoyable retirement life in the future, **start your retirement planning today** by carefully planning and properly managing your MPF and other retirement investments.