

The Future of Retirement

The power of planning



Malaysia Report

HSBC 
The world's local bank

Foreword



It is my pleasure to introduce the latest in our series of global studies into The Future of Retirement. *The power of planning* is our sixth report and the most action-oriented to date.

A key principle of HSBC's strategy is to anticipate, understand and act upon global macro-trends. One of these trends is the ageing of the world's population and the concurrent increase in life expectancy. In addressing the challenges and opportunities of the ageing population the Governments, employers, financial institutions and, of course, families and individuals themselves must come together and work toward similar objectives.

The insurance and Takaful industry has made significant strides and has become an important component in supporting the economic and social development of Malaysia. The evolution of the socio-economic landscape in Malaysia has been instrumental in shaping the industry to provide traditional financial protection products, especially in the development of retirement financing. We look forward to embracing this opportunity and want to contribute to the success of our customers and society in meeting the challenge of an ageing society.

We are reshaping our business worldwide to better help our customers meet their growing and increasingly sophisticated financial needs. As such, we value the insights gained from The Future of Retirement research and are pleased to share the report publicly to provoke thoughts on the need to plan for retirement and prompt action globally.

The power of planning is this year's central message. In recognising the combined benefits of having a financial plan and seeking professional financial advice, it adds a critical element to The Future of Retirement series, moving beyond identifying the issues and challenges and looking to provide points of action towards a better retirement.

Malaysians are beginning to understand that financial planning needs to be taken seriously as they need to be prepared for their 'Golden Years'. Plans without actions are less effective, so we need to also understand the challenges in getting individuals to take action on these plans so that households can expect the best outcomes in later life.

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Introduction

HSBC's The Future of Retirement programme is a world-leading independent study into global retirement trends. It provides authoritative insights into the key issues associated with ageing populations and increasing life expectancy around the world. The 2011 report, *The power of planning*, is the sixth in the series and is based on interviews with more than 17,000 respondents in 17 countries.

This country report, based on the views of 1,033 Malaysians respondents, explores how households in Malaysians are likely to respond to the rapidly changing shape of retirement over the coming decades. All data used in this country report relates to Malaysians unless otherwise indicated. For further global and regional comparisons, please refer to the global report.

Key findings

- Malaysians are amongst the most devout in our survey: 60% see religion as extremely important to a happy retirement
- Financial planning and keeping fit are seen as the two most important ingredients for a happy retirement
- Malaysians see the future in optimistic terms, with 62% believing they will be better off in retirement than their parents' generation
- Nevertheless, 68% still worry that they will not be able to cope financially in retirement
- Of these, 60% worry about not having saved enough, and 64% about unforeseen events depleting savings.
- It is encouraging to note that the majority of respondents do not expect to rely on state provision: only 9% expect to rely on the state for their main source of retirement income, whilst 23% expect their savings and investments to provide for them
- Malaysians are the most prolific planners out of all the countries surveyed, with 84% having some form of financial plan for the future
- Seeking professional financial advice is strongly linked to planning: only 3% of respondents sought advice but did not make a financial plan
- Planning is prevalent across all age groups but is strongest amongst 30-39 year olds
- There are clearly definable benefits to having a financial plan for the future; planners have amassed over twice the retirement assets of non-planners
- Malaysians seem to prefer do-it-yourself financial solutions, with 67% making their own financial calculations and 46% consulting websites for advice
- For individuals who want to take action now to improve their financial well-being later in life, there is a simple 5-step checklist based on the research

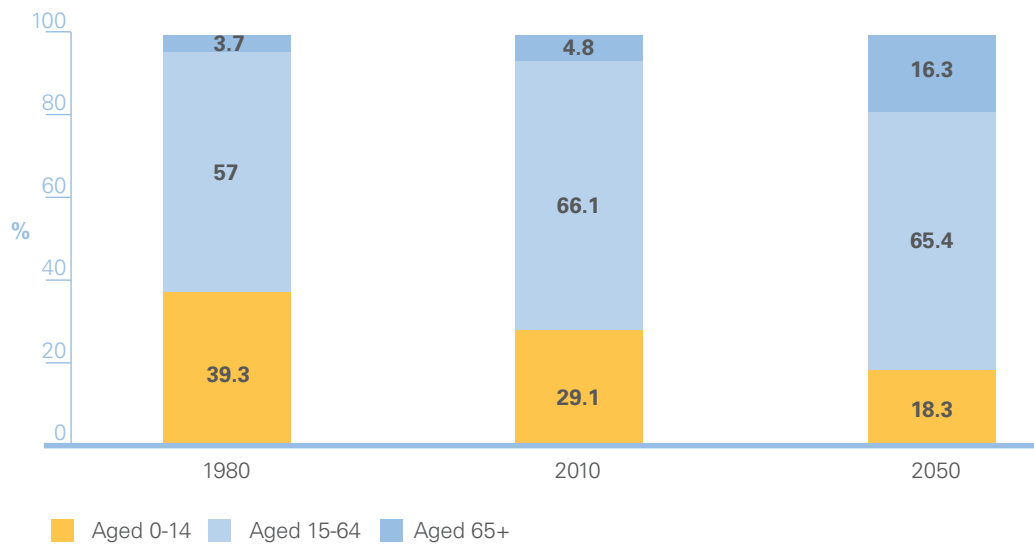
Retirement landscape

Malaysia is a country in transition from a fast-growing 'East Asian Tiger' economy with a youthful and large working population, to a mature, developed country with an ageing population. Only 3.7% of the population was over 65 in 1980, this rose to just below 5% by 2010, but this proportion is projected

to reach 16.3% by 2050. This significant change in the demographic profile of the Malaysian population will place a squeeze on those of working age and on the state, as they shoulder the burden of providing retirement incomes and healthcare for the growing number of retirees.

Figure 1: A new era of retirement

Source: United Nations Population Division, World Population Prospects, The 2008 Division



The changing shape of retirement

Despite facing the same demographic challenges as other major economies, Malaysian respondents are relatively upbeat in their perception of retirement.

Malaysians overwhelmingly see retirement as either an opportunity for a whole new chapter in life (42%) or a time for rest and relaxation (37%).

However there is a distinct minority who see retirement as a time of flexible work (13%), and this sentiment is actually more prominent amongst older Malaysians.

When asked what is extremely important to retirement, financial planning tied with keeping fit as the number one result. This shows that our respondents see that they will not only need to be physically active to enjoy retirement, but also have access to sufficient financial assets.

Respondents are amongst the most likely worldwide to place an emphasis on religion, with 60% saying this is extremely important to a happy retirement.

Figure 2: How people perceive retirement

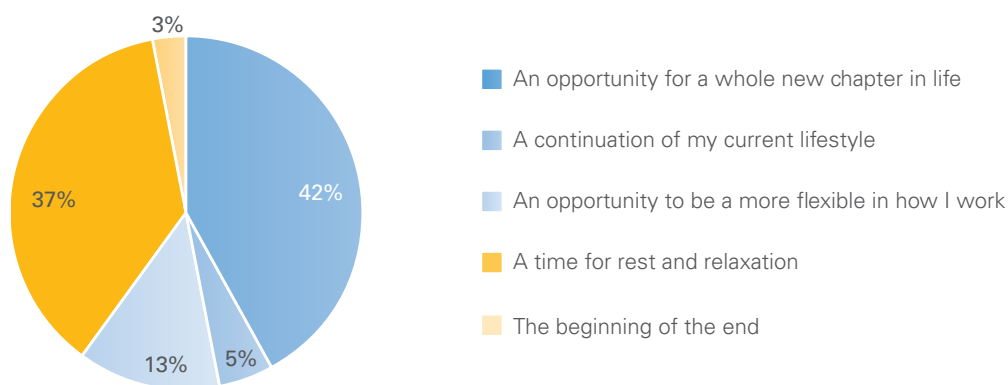
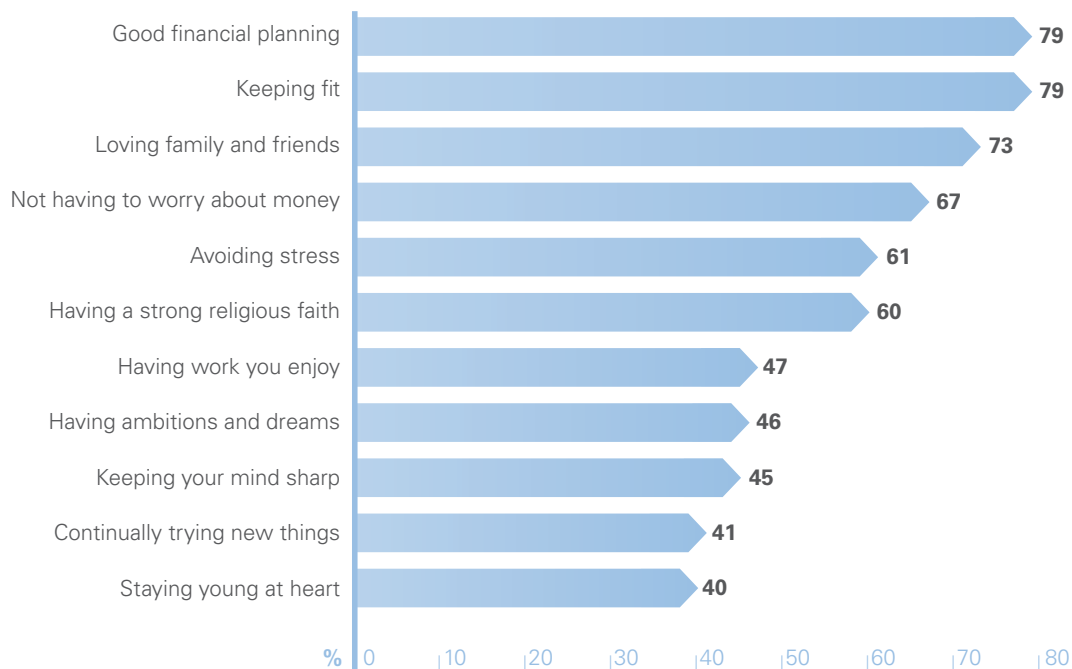


Figure 3: What is extremely important to a happy retirement



Malaysia's rapid economic growth in the past few decades has created an atmosphere of optimism about retirement in our respondents, with 62% expecting to be better off than their parents in

retirement and a further 18% seeing their retirement living standards as being on a par with that enjoyed by their parents.

Nevertheless, among the 20% who feel they will be worse off, most cited the impact of the recent financial crisis: over half of this group believe that the

global financial crisis has reduced the value of their investments and savings, and 48% believe that jobs and careers are less secure than previously.

Figure 4: Better or worse off than your parents' generation in retirement? (net score)

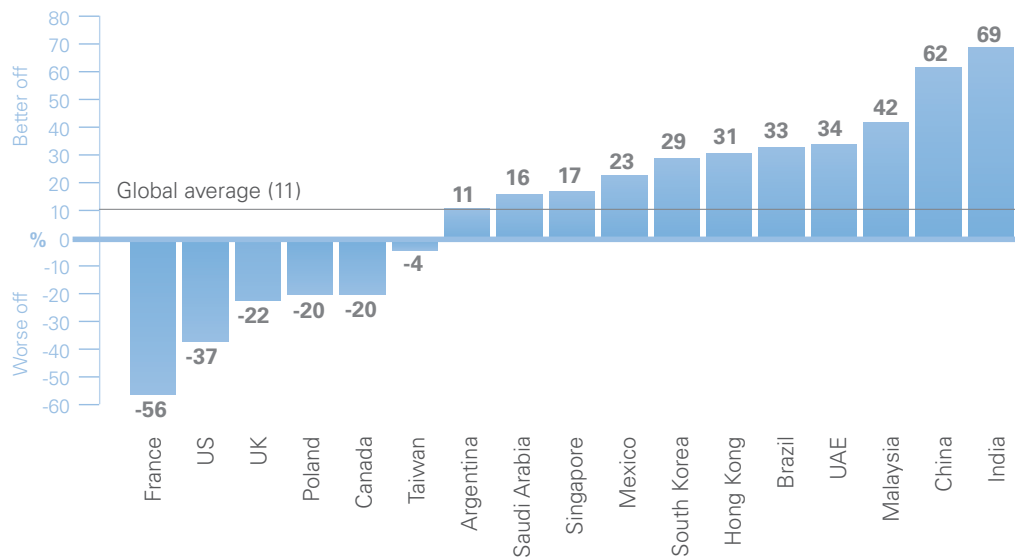
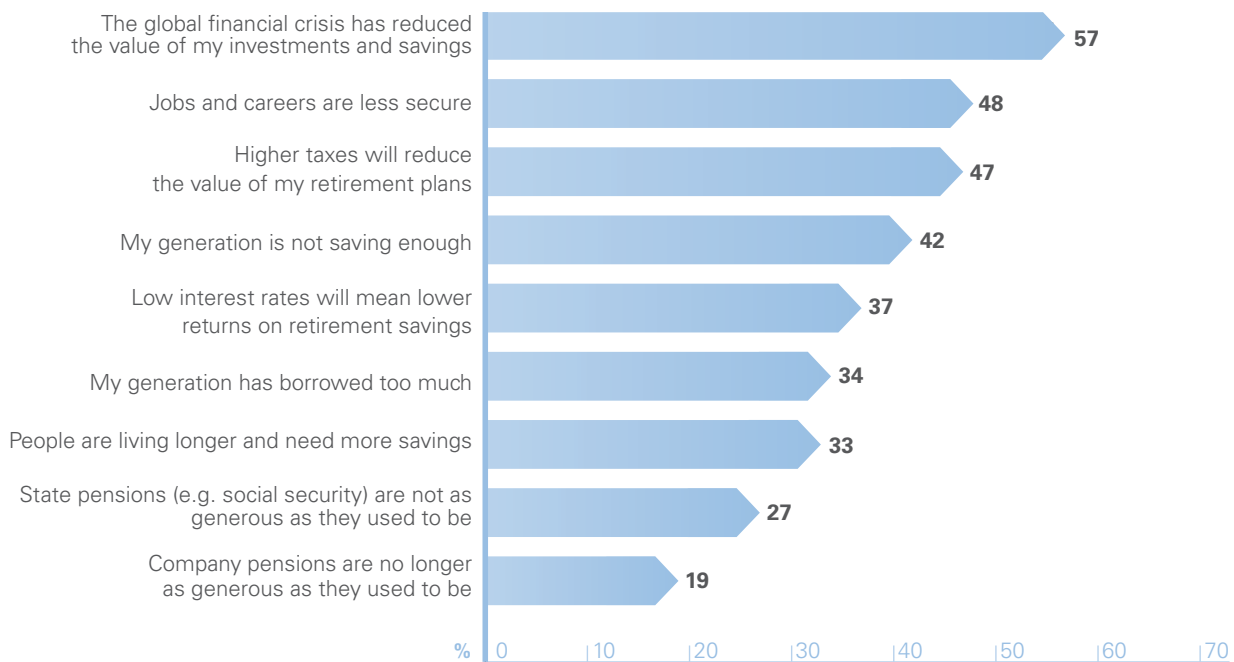


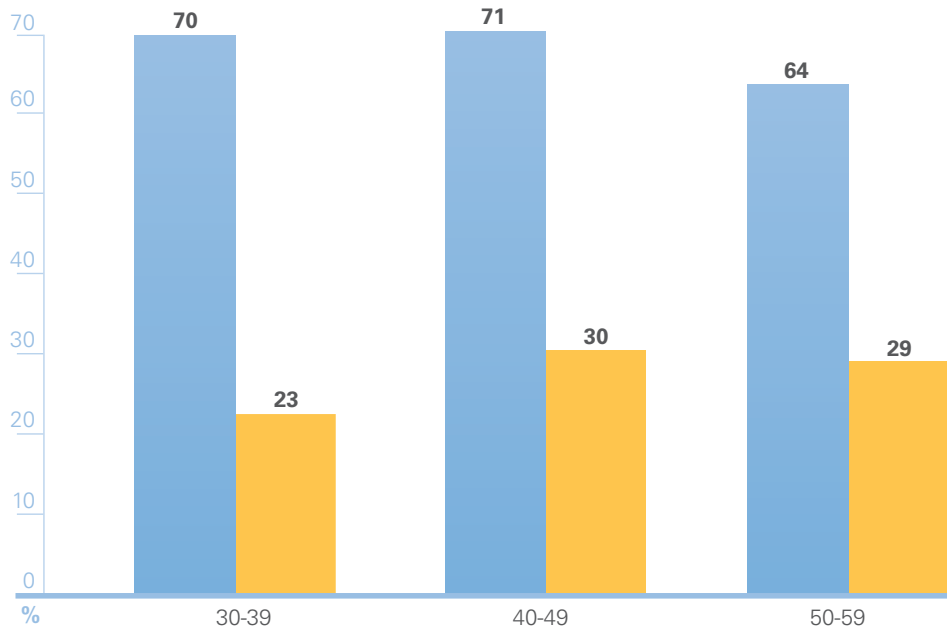
Figure 5: Why will you be worse off in retirement than your parents' generation?



Another notable factor is that worries about a comfortable retirement seem to increase with age, with the proportion seeing retirement as a time of

financial hardship rising in both 40-49 and 50-59 year olds.

Figure 6: A significant proportion associate retirement with financial hardship

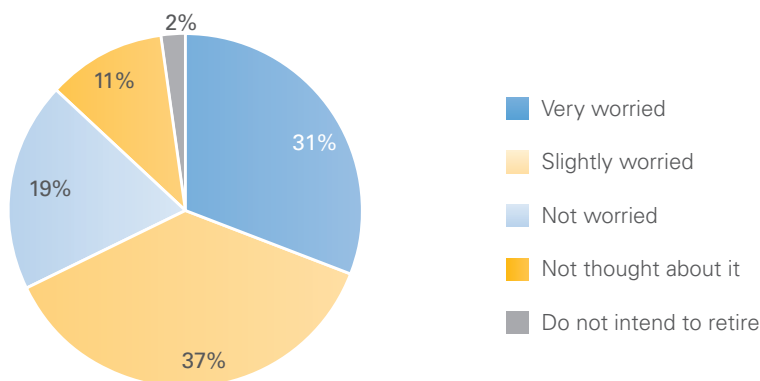


Shortfalls in retirement preparedness

Our findings reveal a significant 'preparedness gap' amongst respondents; 94% believe that having enough money to live on in retirement is important, but only 60% say they feel adequately financially prepared. This leaves a gap of 34% who are not

adequately prepared. The preparedness gap in Malaysia is further evidenced by how worried people are about being able to cope financially in retirement: 68% said they are either slightly or very worried.

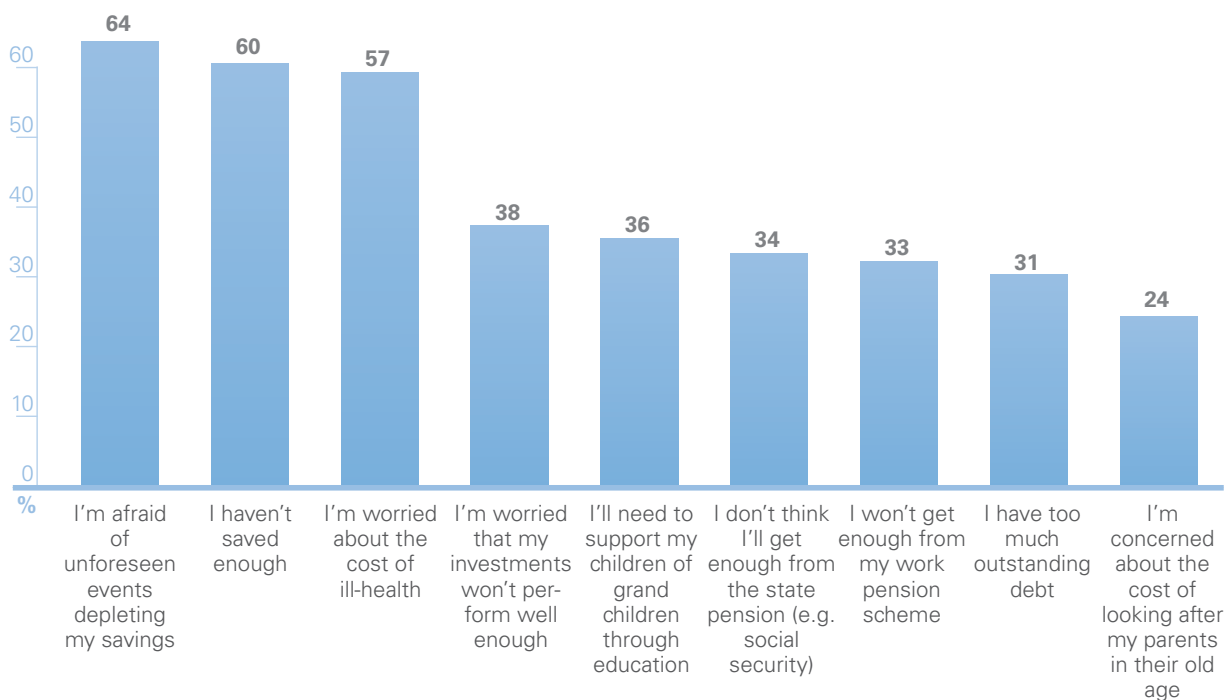
Figure 7: Levels of concern about coping financially in retirement



Overall, it seems that Malaysians grasp the fact that they need to plan and prepare for their own later lives but the prospect of unforeseen events derailing their retirement remains a prime concern. Other major worries centre on the cost of ill-health in retirement and not having saved enough. This suggests that

Malaysians would welcome more widespread availability of asset protection and life insurance products, with only 28% of respondents feeling that their finances are very prepared should something happen to them.

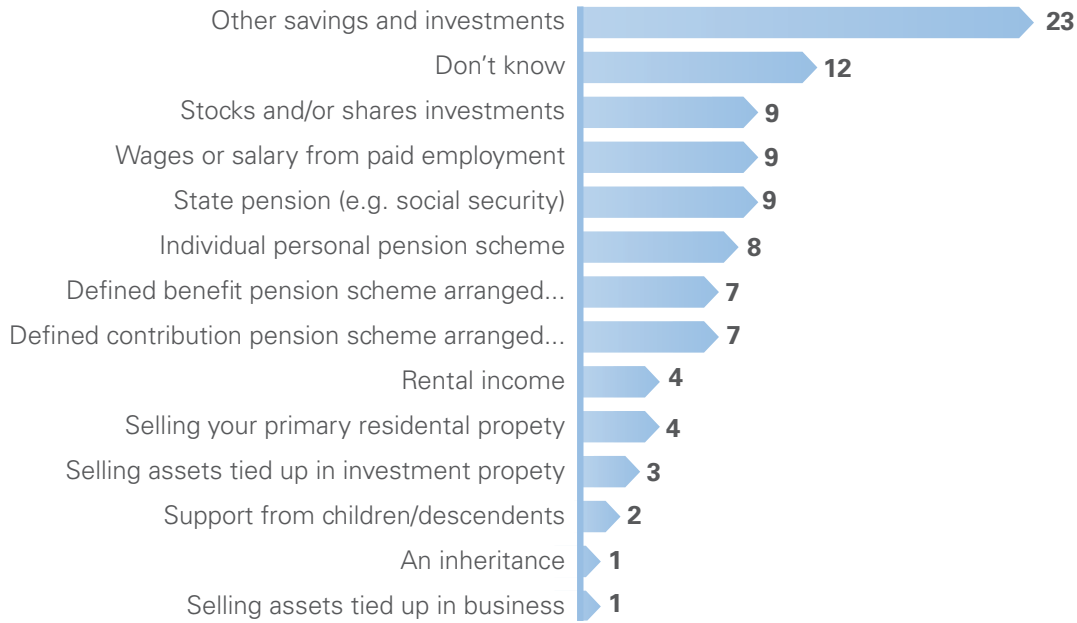
Figure 8: Why people worry about coping financially in retirement



In Malaysia, most respondents expect their savings and investments to provide for them in retirement, with only 9% relying on state provision as their largest source of income. While it is concerning that 12% do not know what their main source of retirement

income will be, this is lower than in most of our surveyed countries. Given that almost a quarter of respondents hope to rely on 'other savings and investments' this suggests that the potential market for retirement products in Malaysia is significant.

Figure 9: Malaysians already rely on their own savings for retirement



The power of planning

Table 1: The four consumer types

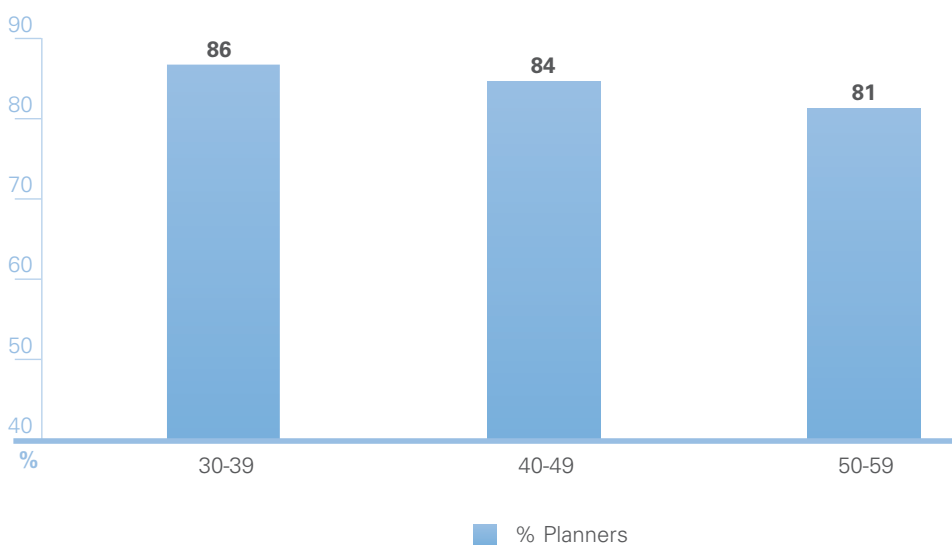
Global (% of global respond- ents)	Malaysia (% of Malaysia respond- ents)	Consumer types
38%	13%	Non-planners: disengaged. These people are doing nothing by way of financial planning or financial advice. There is a complex mix of reasons why they do not make a plan; many believe they lack the necessary household income.
12%	3%	Non-planners: advice-seekers. These people do not have a financial plan, though they do at least take professional financial advice from time to time. They are likely to seek advice around one particular need, rather than take holistic advice.
22%	60%	Planners: active self-guided. These people have a financial plan in place but do not seek professional expertise to help them make sense of their finances. They are likely to be younger, mid-to-high income and internet savvy.
28%	24%	Planners: advice-seekers. These people have a financial plan in place and also seek professional financial advice to help manage their finances. In many respects they are very well prepared for retirement.

As we have seen, a greater onus will be put on individuals to prepare for their own retirement and, fortunately, Malaysia leads the world in financial planning behaviour: 84% of respondents have financial plans for the future. This remarkably high level suggests that our respondents are thinking independently and proactively about their futures; especially since 60% of respondents are self-guided planners, who do not consult advisers. Of the 27% of respondents who seek professional financial advice,

nearly all are also planners; suggesting that people use professional advice to supplement their plans, not replace them.

Younger people are leading the way in financial planning, with 86% of 30-39 year olds having a financial plan compared to 81% of 50-59 year olds. These findings hold true even when controlling for age and income.

Figure 10: Younger people more likely to have a financial plan



The planning premium

Our findings reveal that those with a financial plan for the future enjoy several benefits over those who do not, the 'planning premium', and that these benefits are both 'hard' and 'soft', including not only greater and more diverse retirement savings, but also a more positive outlook and fewer worries about later life.

Individuals who undertake financial planning are not only likely to be better off in retirement, but also more likely than non-planners to associate retirement with positive ideas such as freedom and less likely to associate it with negative ones such as financial hardship. Although it is difficult here to separate cause and effect, these findings hold true even when controlling for age and income.

Figure 11: Retirement associations of planners and non-planners

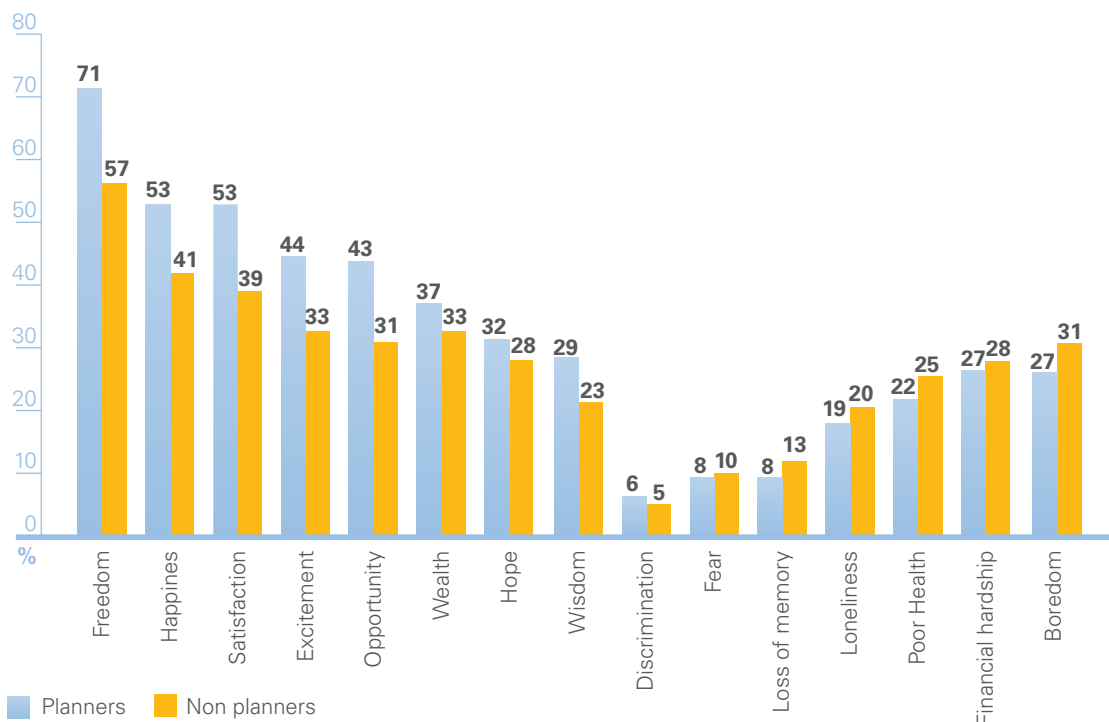


Table 2: Planners have more retirement savings and investments

	Malaysia average*	Non-planners: disengaged	Non-planners: advice seekers	Planners: active self-guided	Planners: advice-seekers	All non-planners	All planners
Total retirement savings and investments (household median), '000s MYR	107,000	50,000	50,000	110,000	130,000	50,000	120,000
% of global average	100%	47%	47%	103%	121%	46%	112%

These figures are calculated using median data, which can produce the same results in different categories

When we look at the retirement assets of our four consumer types, planners not only hold a wider range of retirement products than non-planners but also have on average more than twice (240%) the

retirement assets of non-planners. This shows that there is a strong planning premium in material financial terms.

The advice advantage

Those who have a financial plan in place and sought professional advice are best off financially, with the largest retirement assets of all four consumer groups. This reveals a further benefit for those who combine financial planning with professional advice – the ‘advice advantage’. Advice-seeking Planners have 121% of the retirement assets of the average Malaysian. Whilst it is difficult to separate cause and effect, these findings also hold true across all age and income ranges.

Currently we see a preference in Malaysia for self-sufficiency in retirement income planning with 67% of respondents preferring to do their own financial calculations and 46% consulting online financial research and websites. In terms of traditional advice channels, Malaysians utilise a range of sources for information and guidance, with banks, fund managers, insurers and independent financial advisers all taking a share of the market.

Conclusion

Malaysians are the most prolific financial planners of all the countries surveyed through the Future of Retirement survey, a commendable result for a country going through rapid economic expansion. It is even more encouraging that they are amongst the least dependent on state solutions to fund their retirements, and younger people are the most likely to be actively planning for the future.

Company pensions do not make up the gap; people rely on their own personal savings to do so. This will stand Malaysia in good stead as the population begins to age significantly over the next thirty years, leaving the workforce of today less able to depend on their children to fund their retirement. This demographic shift brings new challenges, especially a squeeze on state healthcare provision. This prospect has left people concerned about ill-health potentially draining their retirement savings. Another area of concern centres on asset protection in the event of unforeseen events.

These challenges present an opportunity for the advice market, which is currently under-developed and under-used in Malaysia; as the planning needs of the population become more complicated, the opportunity for professional financial advice grows.

For individuals and households who want to take action now to improve their financial well-being in later life, we have devised a simple 5-step checklist based on the research:

1. Establish some clear goals, both short and long term
2. Benchmark yourself
3. Establish a comprehensive financial plan
4. Implement the plan
5. Keep your plan under review

Further details on the 5-step process can be found at the end of The Future of Retirement *The power of planning* global report.



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