

2019 ASIA-PACIFIC
ANNUAL SYMPOSIUM



Session 4B, Asia Retirement Landscape

Presenters:

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Asia Retirement Landscape

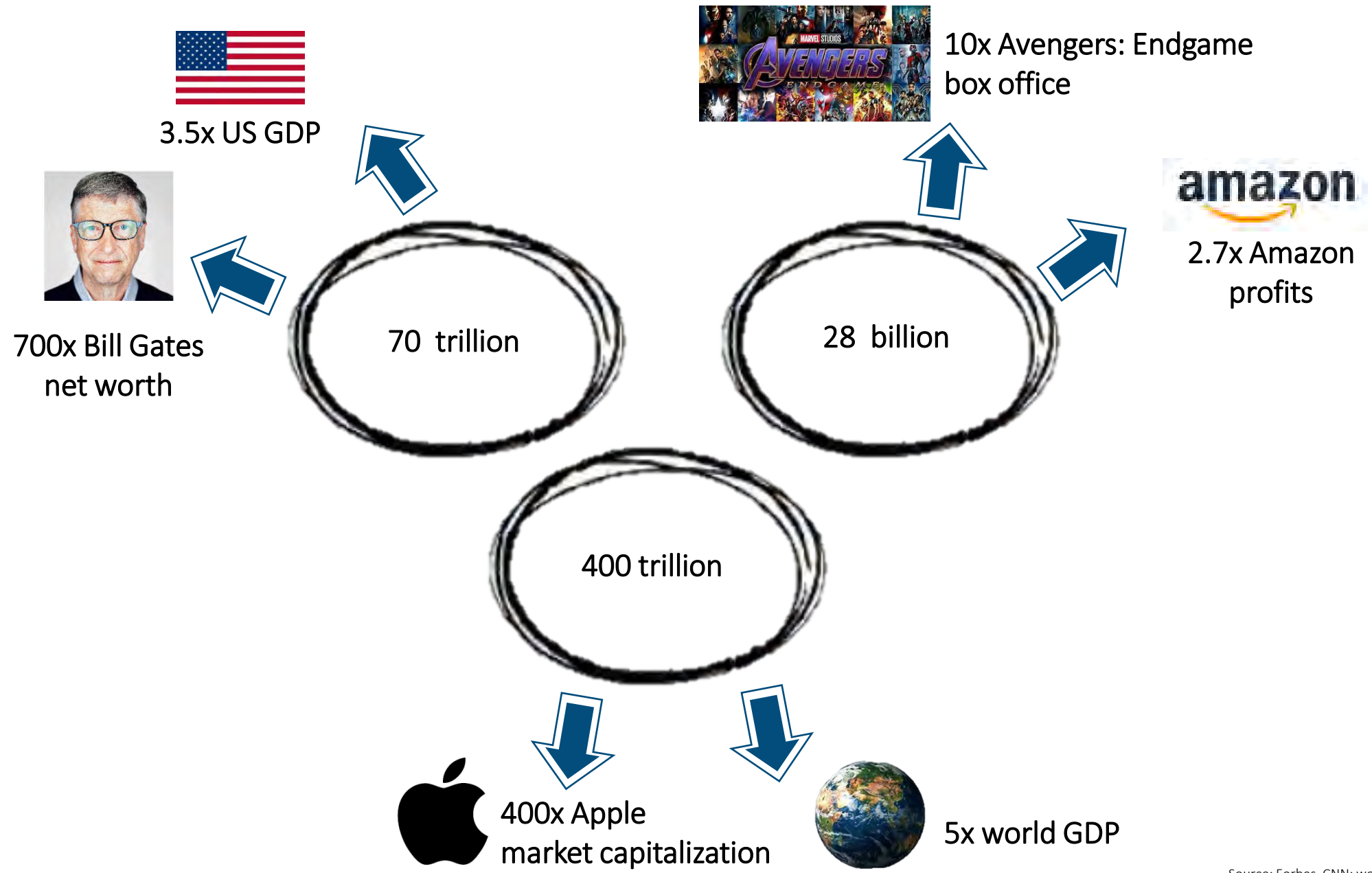
ELVIN THARM

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Manulife Asset Management

June 18, 2019





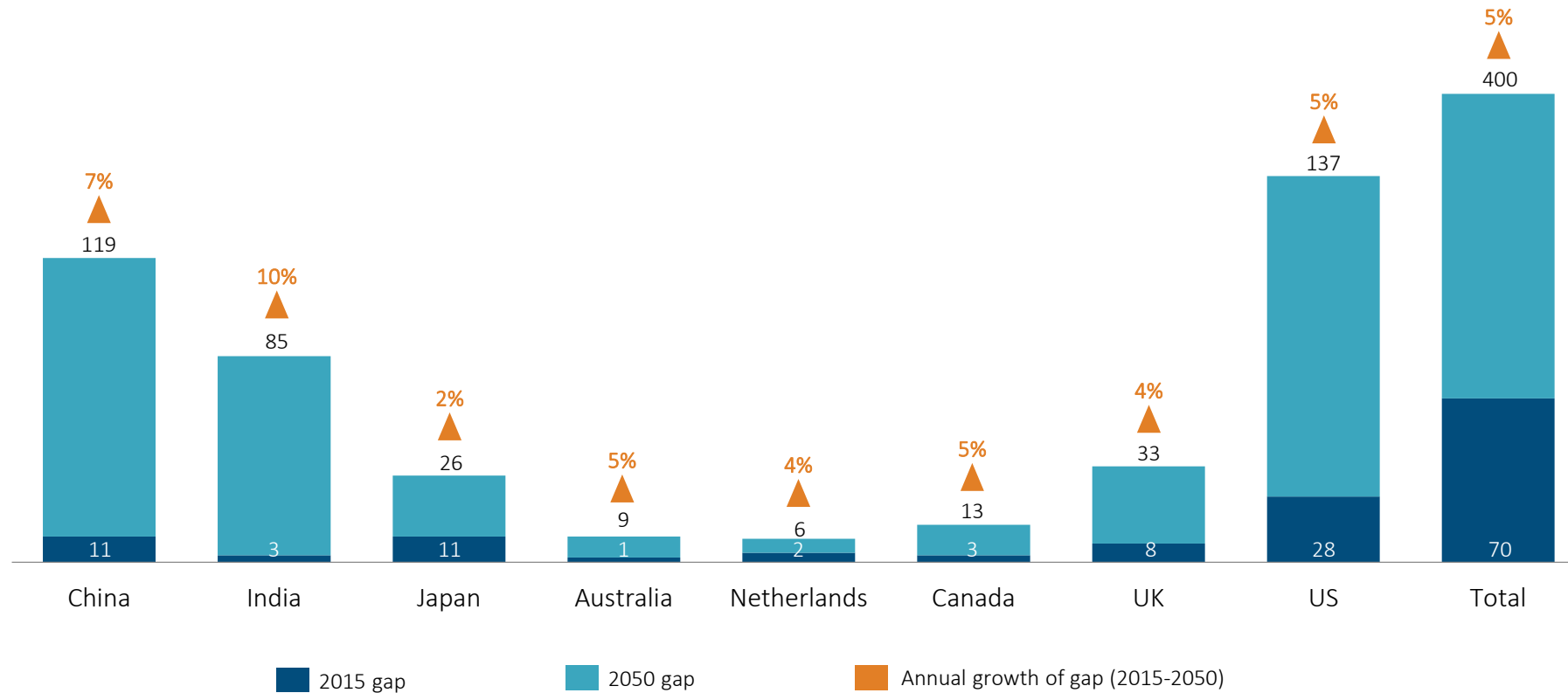
Source: Forbes, CNN: world's largest economies, IMDbPro

Retirement Savings Gap, 2015-2050 (US\$ trillion)

Shortfall in pension savings is estimated at **\$70 trillion** in 2015

The gap is projected to grow to **\$400 trillion** by 2050

Growth of **\$28 billion** each day



Source: World Economic Forum, How We Can Save for Our Future 2018

Agenda

- Asia Retirement Markets
- 5-Pillar Framework
- Holistic Assessment Framework
- Key Takeaways

Asia Retirement Markets



Challenges Facing Asia Retirement Systems

RAPID AGEING¹



2.5X

LOW FERTILITY²



1.92

LONGEVITY³



27
YEARS

LACK OF ACCESS⁴



50%

INADEQUATE SAVINGS⁵



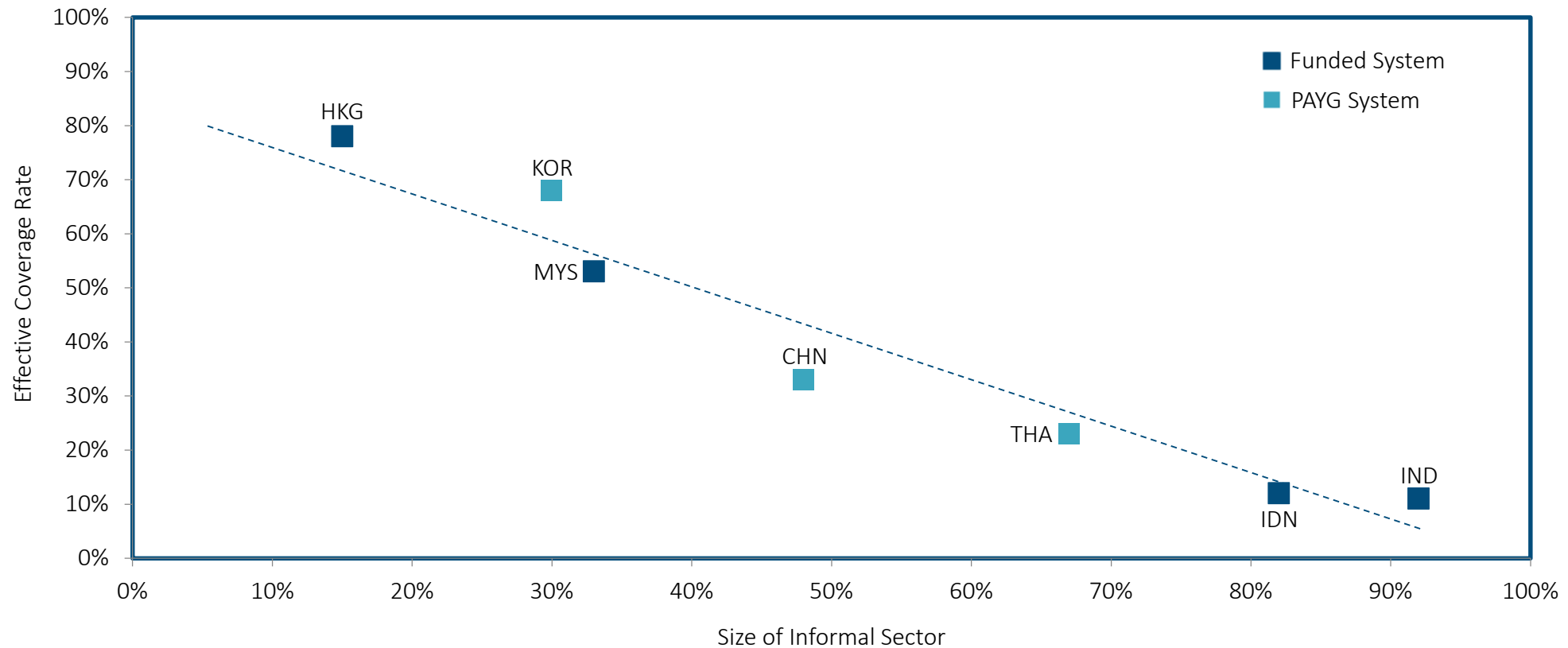
15%

1. The population aged 65 and older will increase to two-and-a-half times the current level by 2050
2. The Asia average fertility rate is 1.92 by 2050. The population growth rate in Asia is expected to hit zero by 2050
3. The average retirement duration for couples is 27 years. Married Asian couples need to add 7-10 years to their retirement duration assumptions
4. Half of the workers are in the informal/ unorganized sector and they are least likely to have access to a workplace savings plan
5. To support a reasonable level of income in retirement, 10 to 15% of an average annual salary needs to be saved

Source: 1. IMF, <http://www.reuters.com/article/us-imf-asia-ageing-idUSKBN18503C>; 2. Worldometers, <http://www.worldometers.info/world-population/asia-population/>; 3. Manulife analysis 4. World Economic Forum 2017, We'll live to 100-how can we afford it?

Pension Coverage Rate and Size of Informal Sector

When informal sectors are relatively small, as they are in Hong Kong and South Korea, state pension coverage tends to be high. Vice versa is also true, as in India and Indonesia.

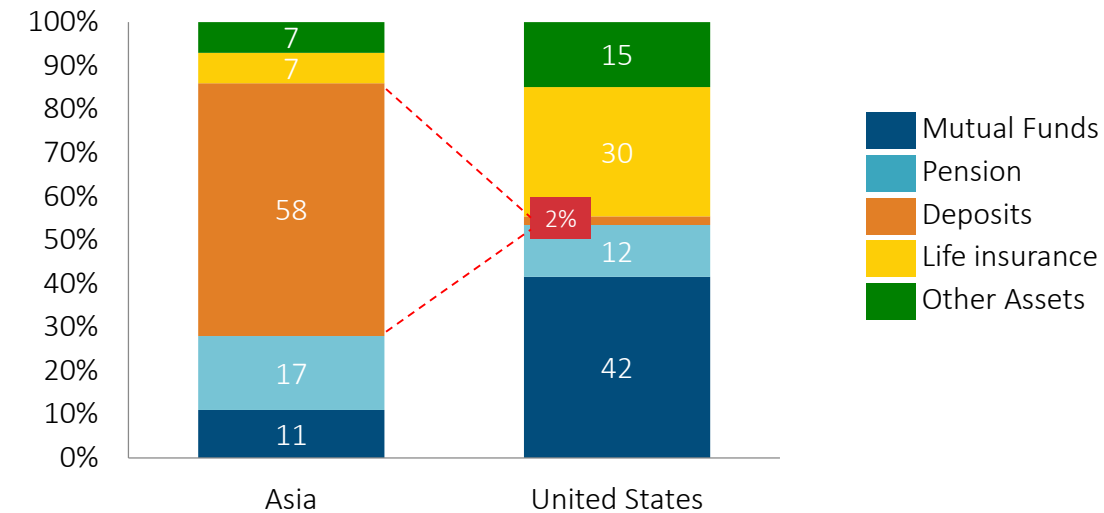
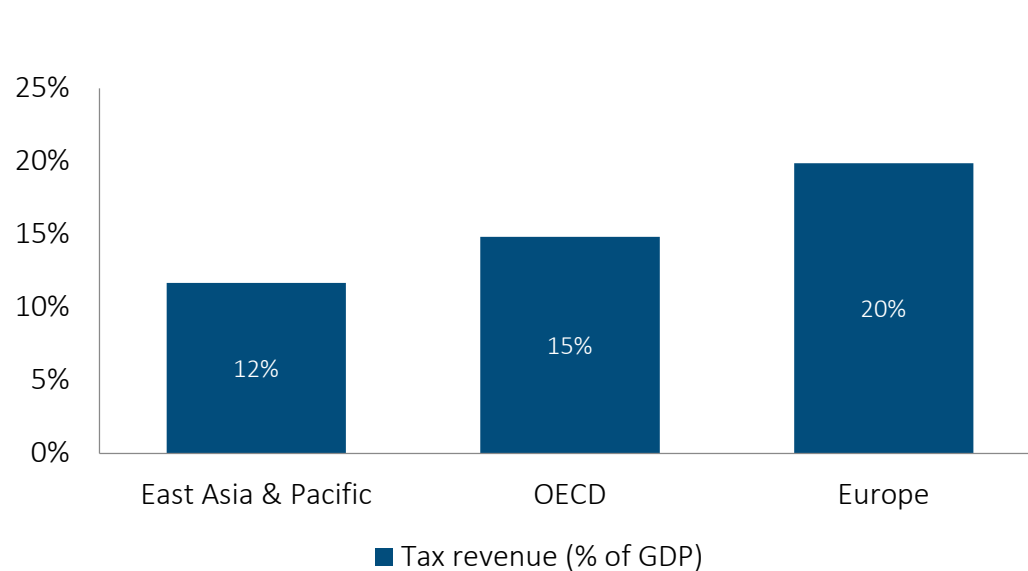


Source: Global Aging Institute, Voluntary Pensions in Emerging Markets

Asia Retirement Preparedness Gap

Tax burdens in Asia are among the lowest in the world. Tax incentives for retirement savings are therefore less motivating in Asia.

Large cash deposits on household balance sheet earning negative real return during accumulation phase.



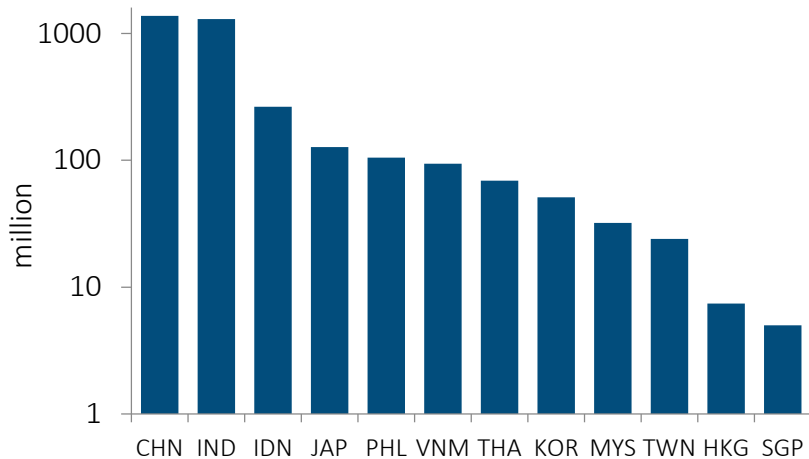
Source: OECD, World Economic Forum, How We Can Save for Our Future 2018

Asia Retirement Markets

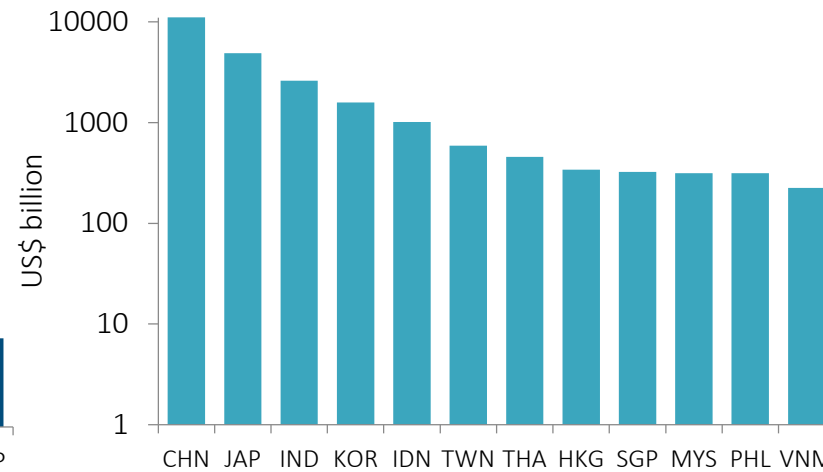
The Asian economies have seen strong growth over the last decade, with the emergence of a sizable middle class in most of the region's developing markets.

However, the retirement systems are unable to provide sufficient retirement income for a large part of the population.

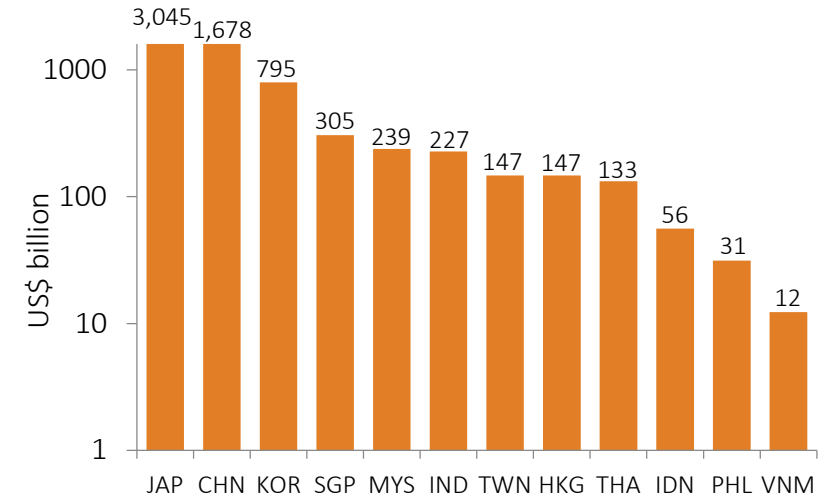
Population 2017



Nominal GDP 2017



Retirement AUM 2017

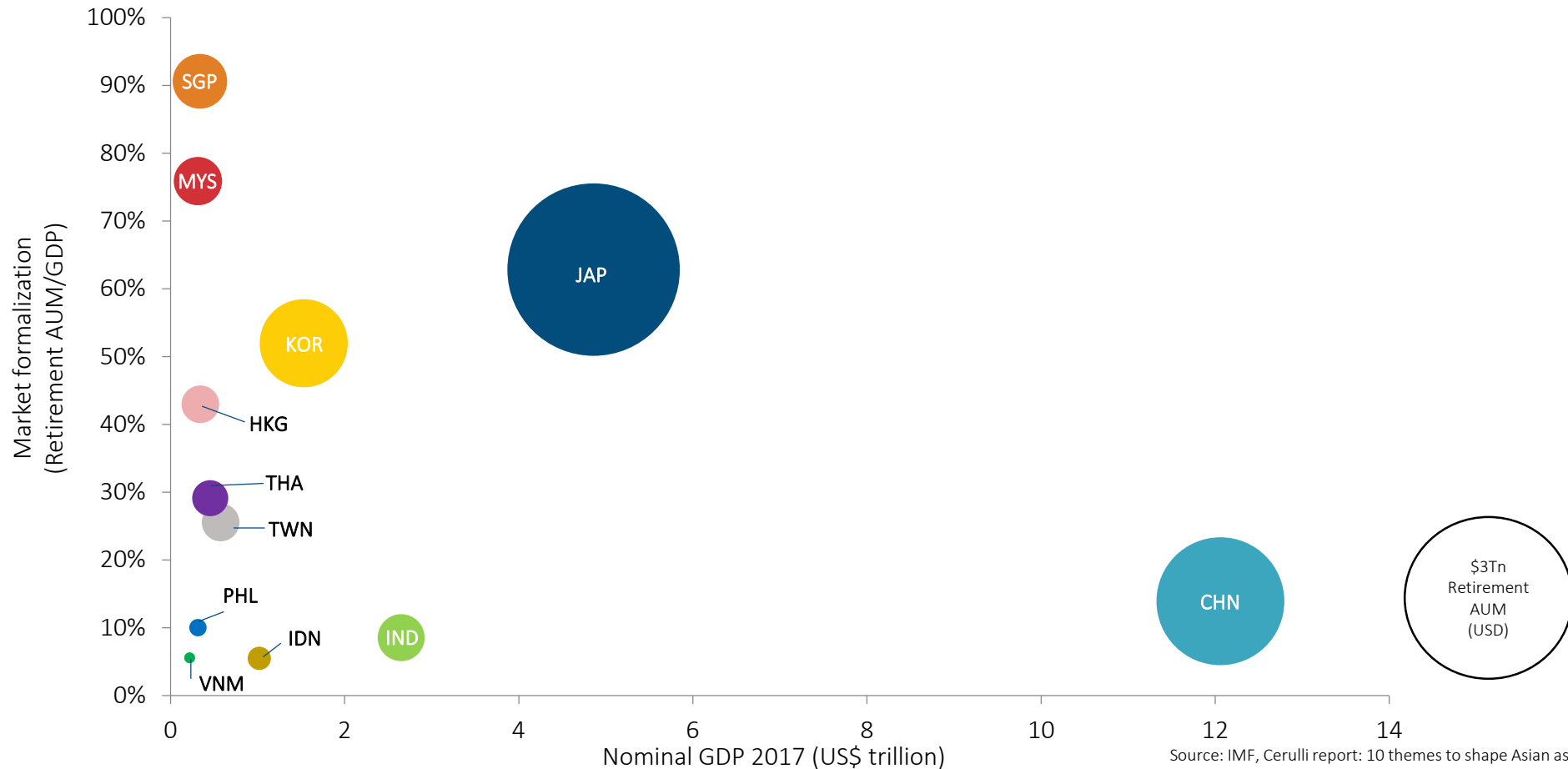


Source: Manulife database, World Bank, IMF, Cerulli reports: 10 themes to shape Asian asset management over the next 10 years, asset management in southeast Asia 2018, Institutional asset management in Asia 2018, Willis Towers Watson: global pension study 2017

Asia Retirement Markets

In Asia, pension assets as a % of GDP are comparatively low.

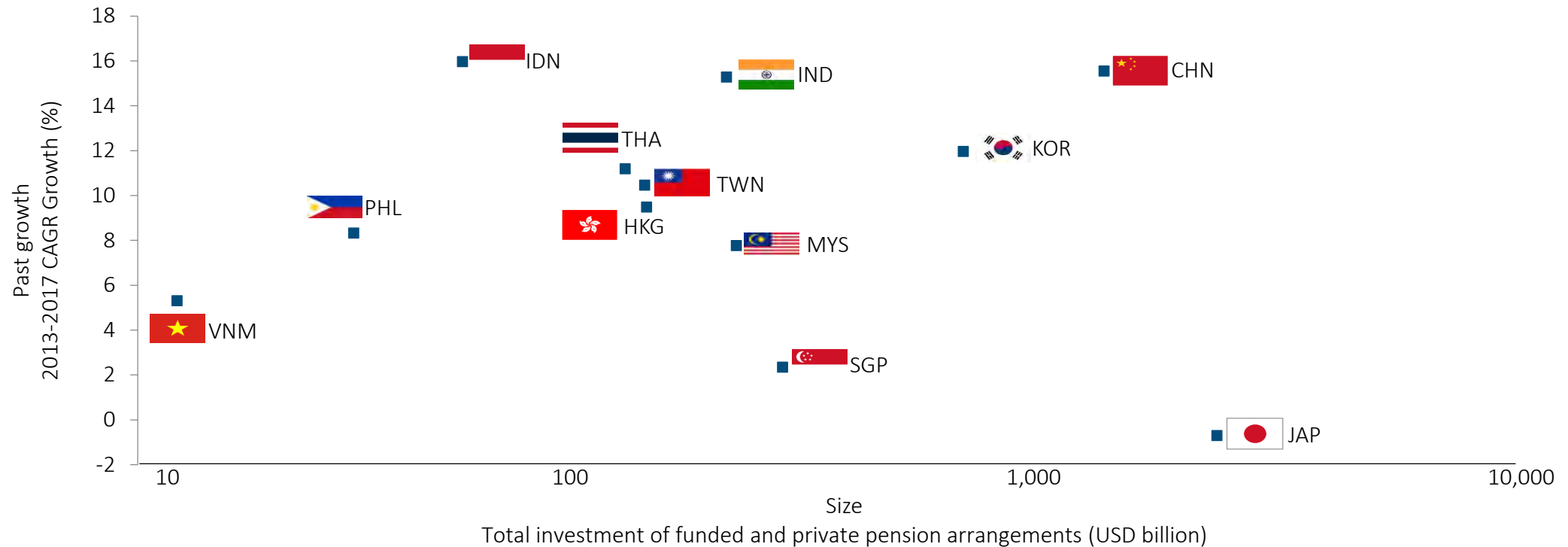
In UK, US and Canada, the pension assets as a % of GDP are 121%, 130% and 108% respectively.



Source: IMF, Cerulli report: 10 themes to shape Asian asset management over the next 10 years

Past Growth in Asia Markets (2013-2017)

The pension assets of the region increased by a CAGR of 12.17% from 2013 to 2017.

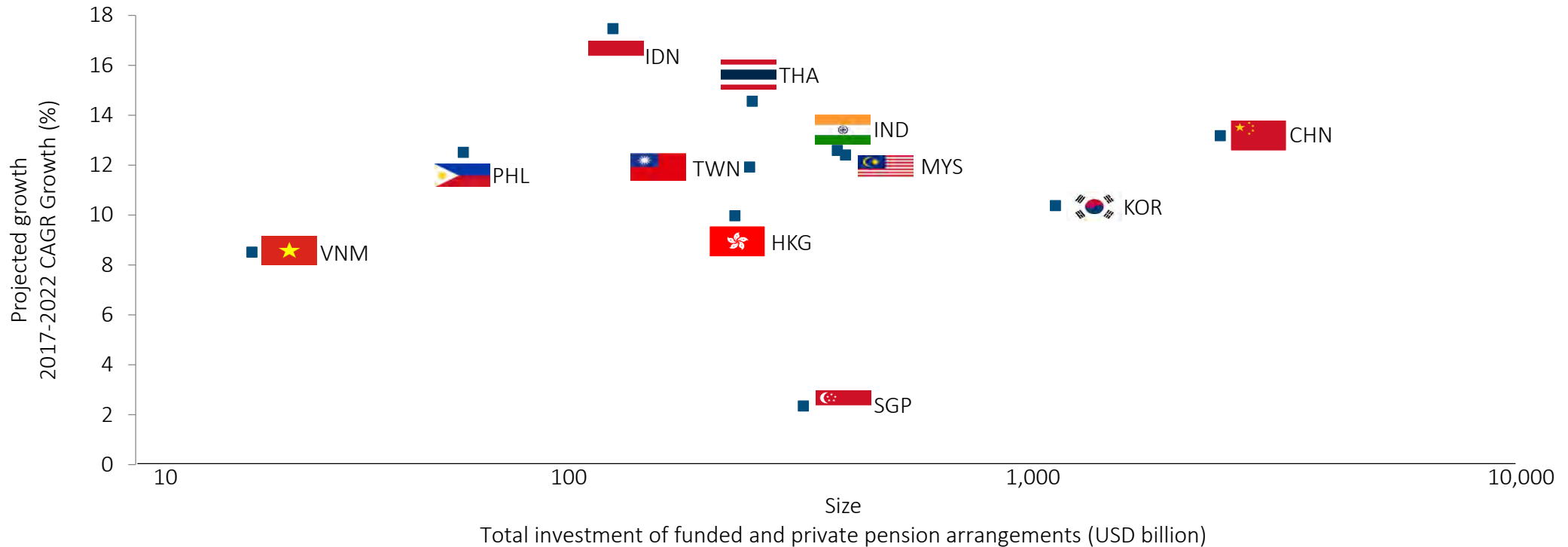


Note: Data contain assets from the first, second and, in selected markets such as Singapore, Thailand and Malaysia, third pillars and past growth rate, by country/ district (% , USD billion)

Source: World Bank; OECD; Willis Towers Watson: Global Pension Study 2017; Cerulli report: 10 themes to shape Asian asset management over the next 10 years; Singapore CPF Board

Projected Growth in Asia Markets (2017-2022)

Expected to increase by a CAGR of 12.6% from 2017 to 2022.



Note: Data contain assets from the first, second and, in selected markets such as Singapore, Thailand and Malaysia, third pillars and past growth rate, by country/ district (% , USD billion); insufficient data to project Japan's growth

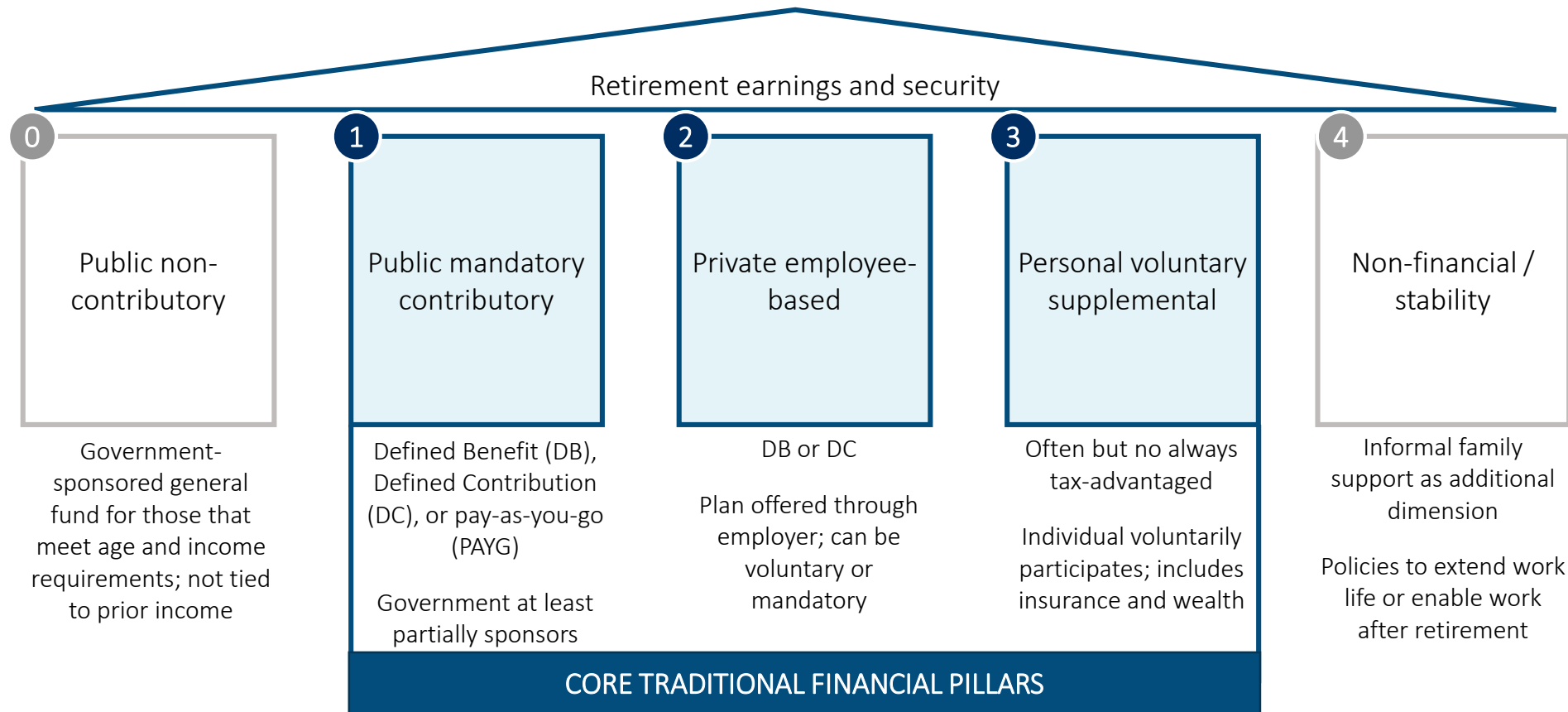
Source: World Bank; OECD; Willis Towers Watson: Global Pension Study 2017; Cerulli report: 10 themes to shape Asian asset management over the next 10 years; Singapore CPF Board

5-Pillar Framework



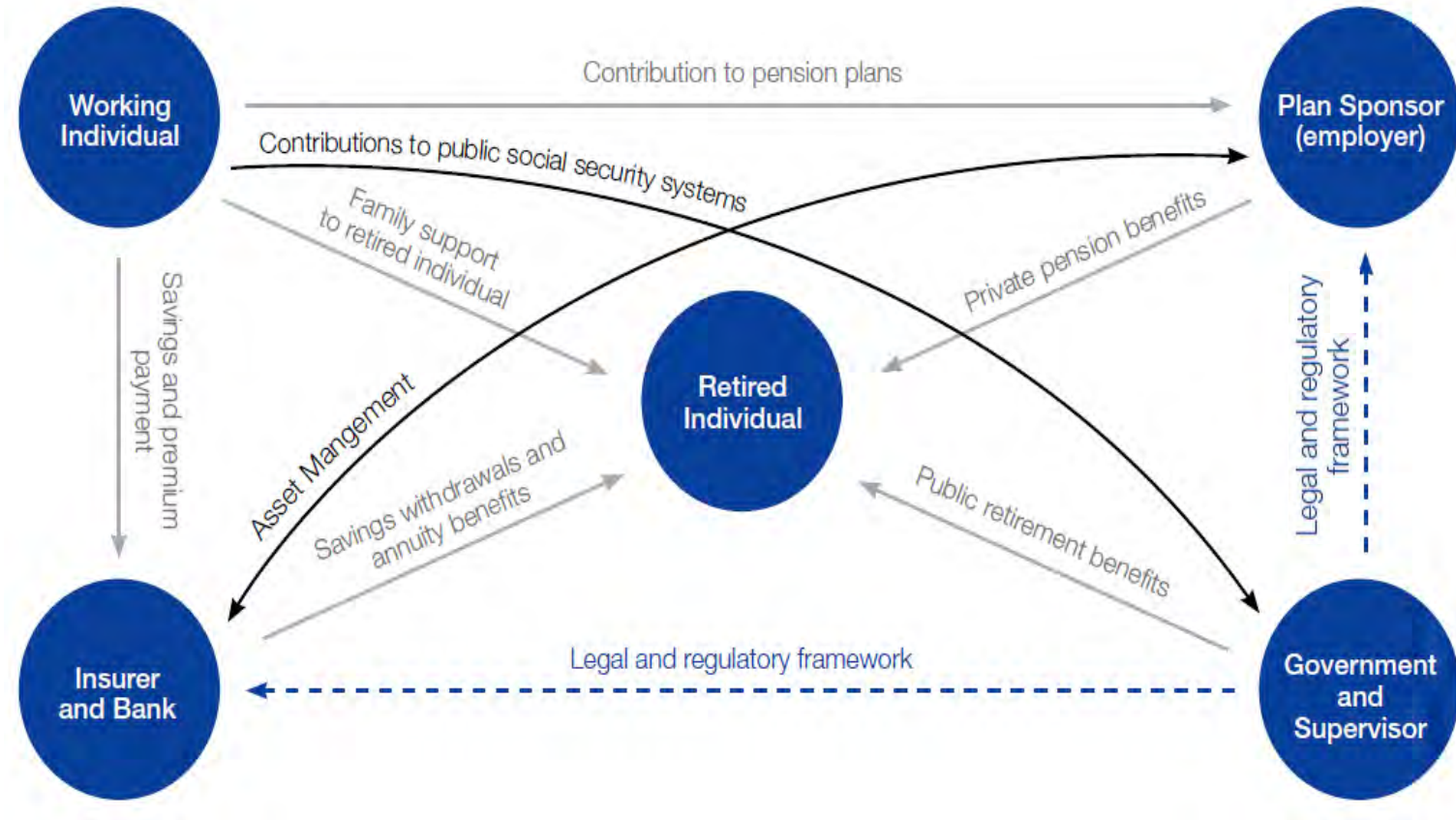
World Bank 5-Pillar Framework

Multi-pillar designs provide more flexibility than mono-pillars and are typically better able to address the needs of the main target groups in the population.



Interaction Between Pillar 1, 2 and 3

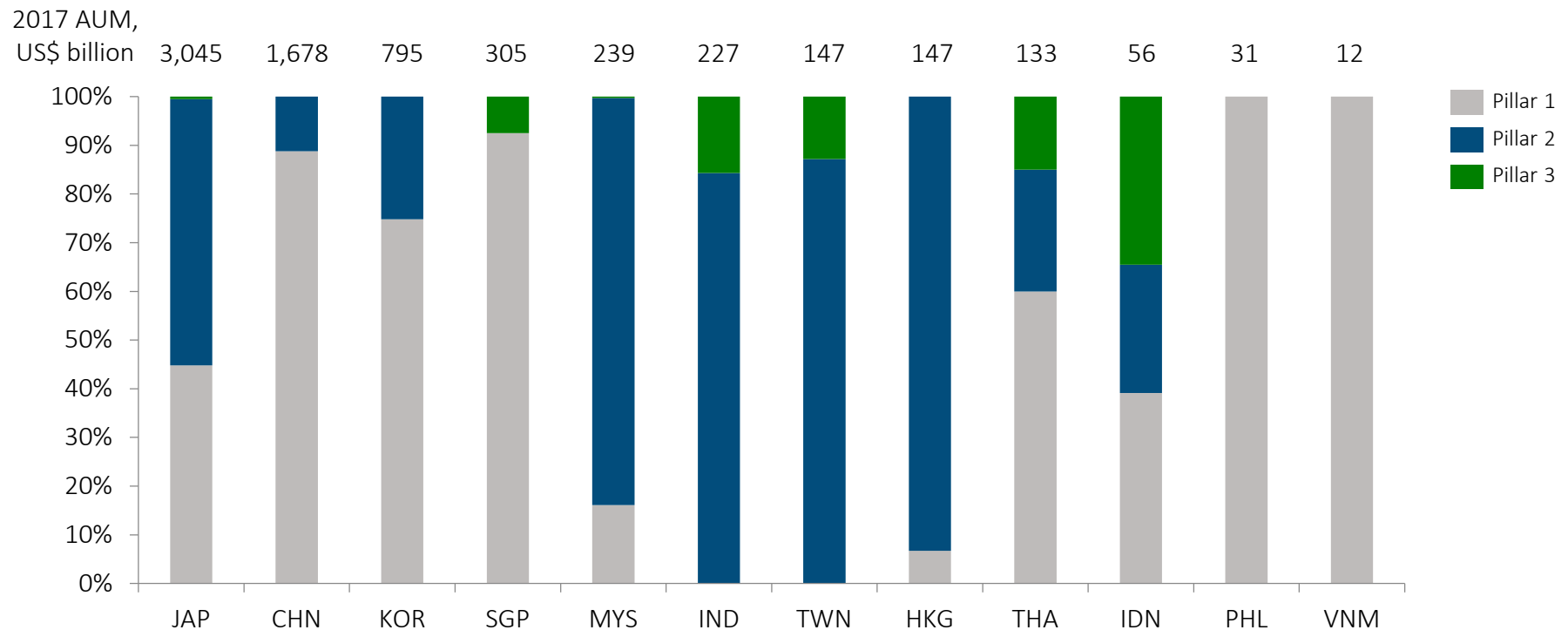
The stakeholders are either offering and managing, or contributing and benefiting from, the pillars one through three.



Source: World Economic Forum: Developing future social protection systems-Retirement income

Retirement Assets (AUM) by Pillar 1, 2 and 3

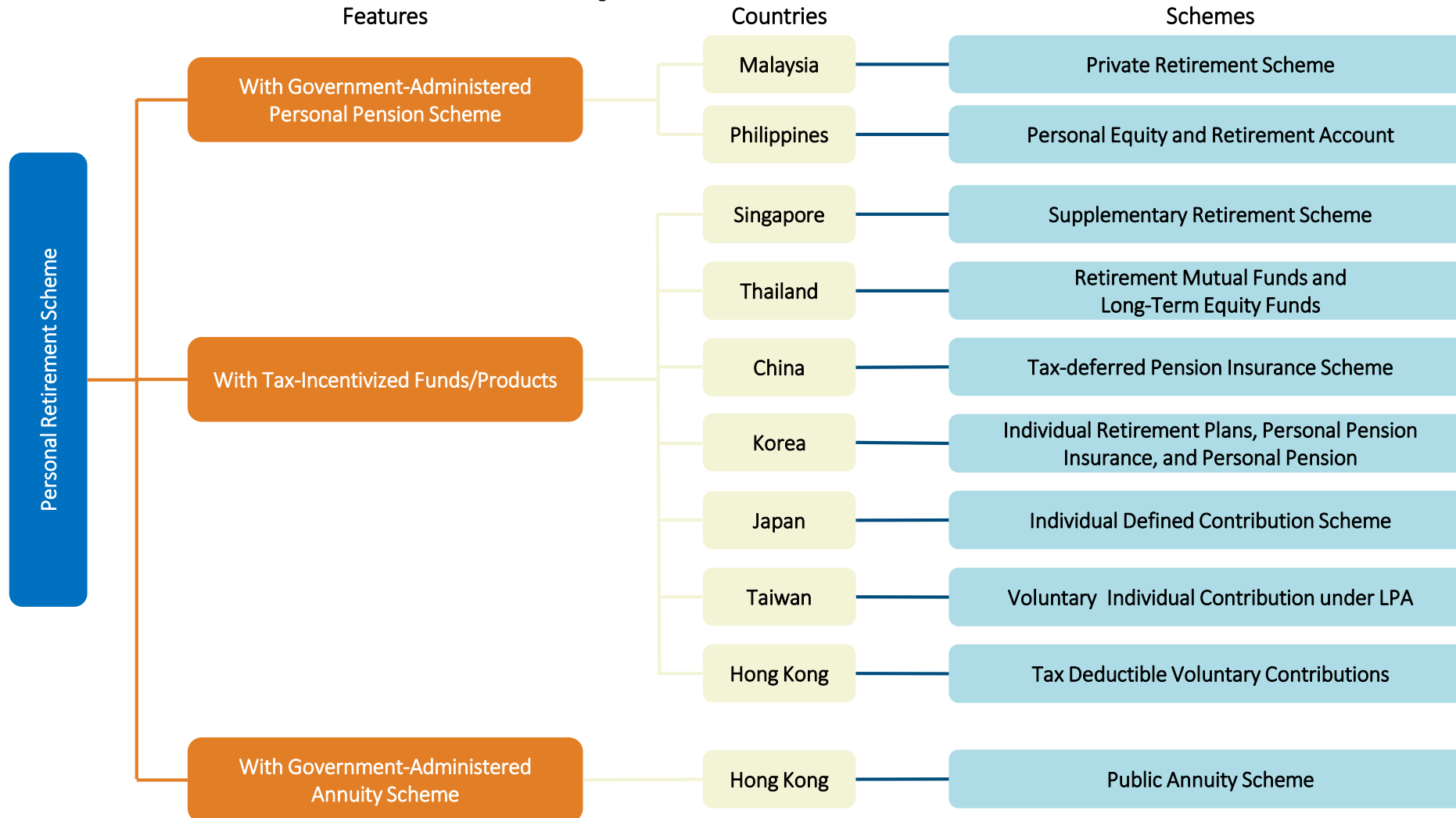
Much of Asia has been slow to develop their pillar 3 retirement system, largely from lack of government support and little understanding of such solutions.



Source: Manulife database, World Bank, IMF, Cerulli reports: 10 themes to shape Asian asset management over the next 10 years, asset management in southeast Asia 2018, Institutional asset management in Asia 2018, Willis Towers Watson: global pension study 2017

Notes: Retirement AUM contains assets from the first, second and in selected markets such as Singapore, Thailand and Malaysia, third pillars. Third pillars assets include only those from established schemes

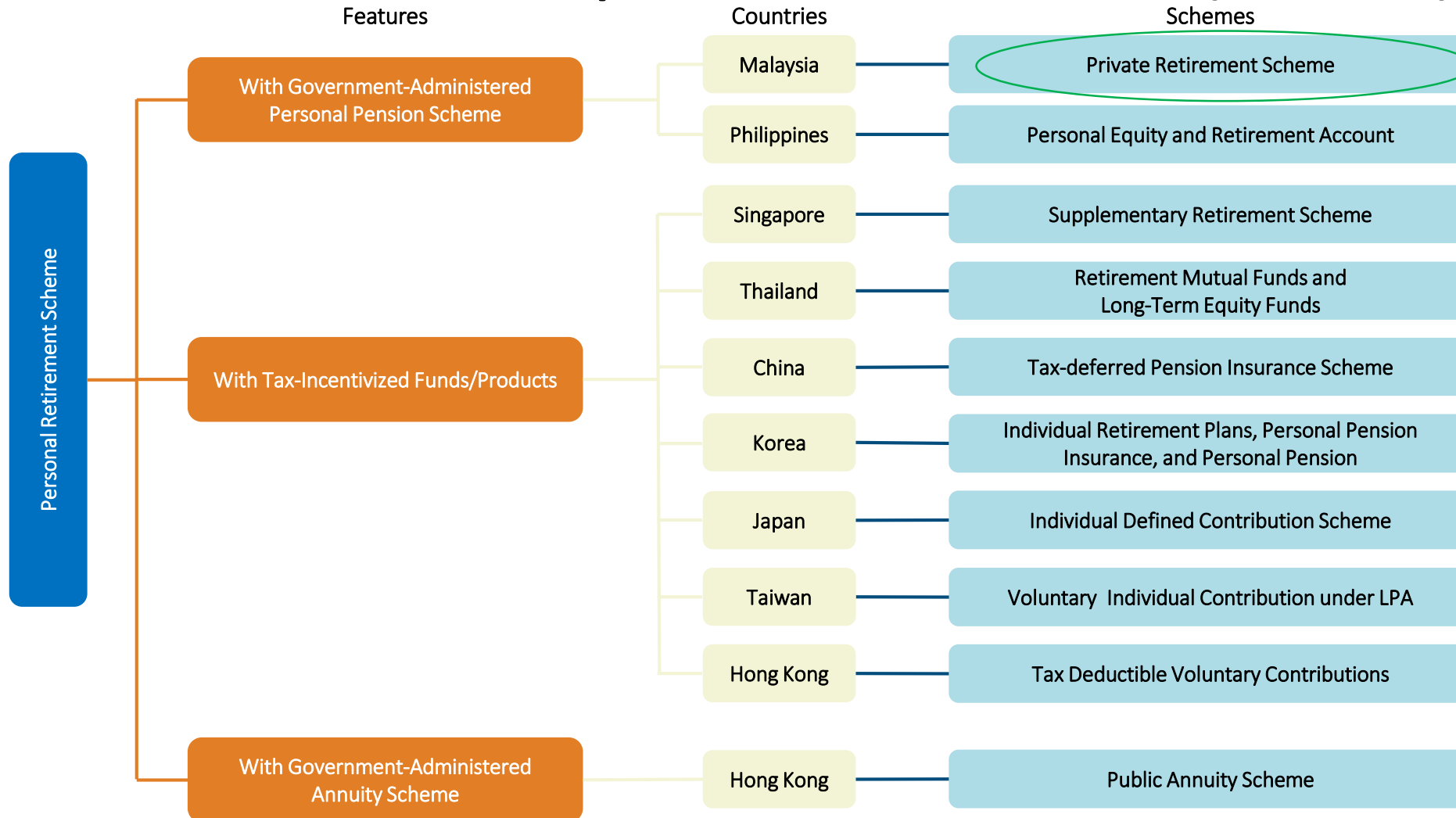
Recent Developments in Pillar 3



- Growing opportunities in the third pillar
- Governments are shifting the responsibility for retirement security to individuals as state pensions and social insurance schemes increasingly fail to provide sufficient old-age income

Source: The Cerulli Report, 10 themes to shape Asian asset management over the next 10 years, 2018

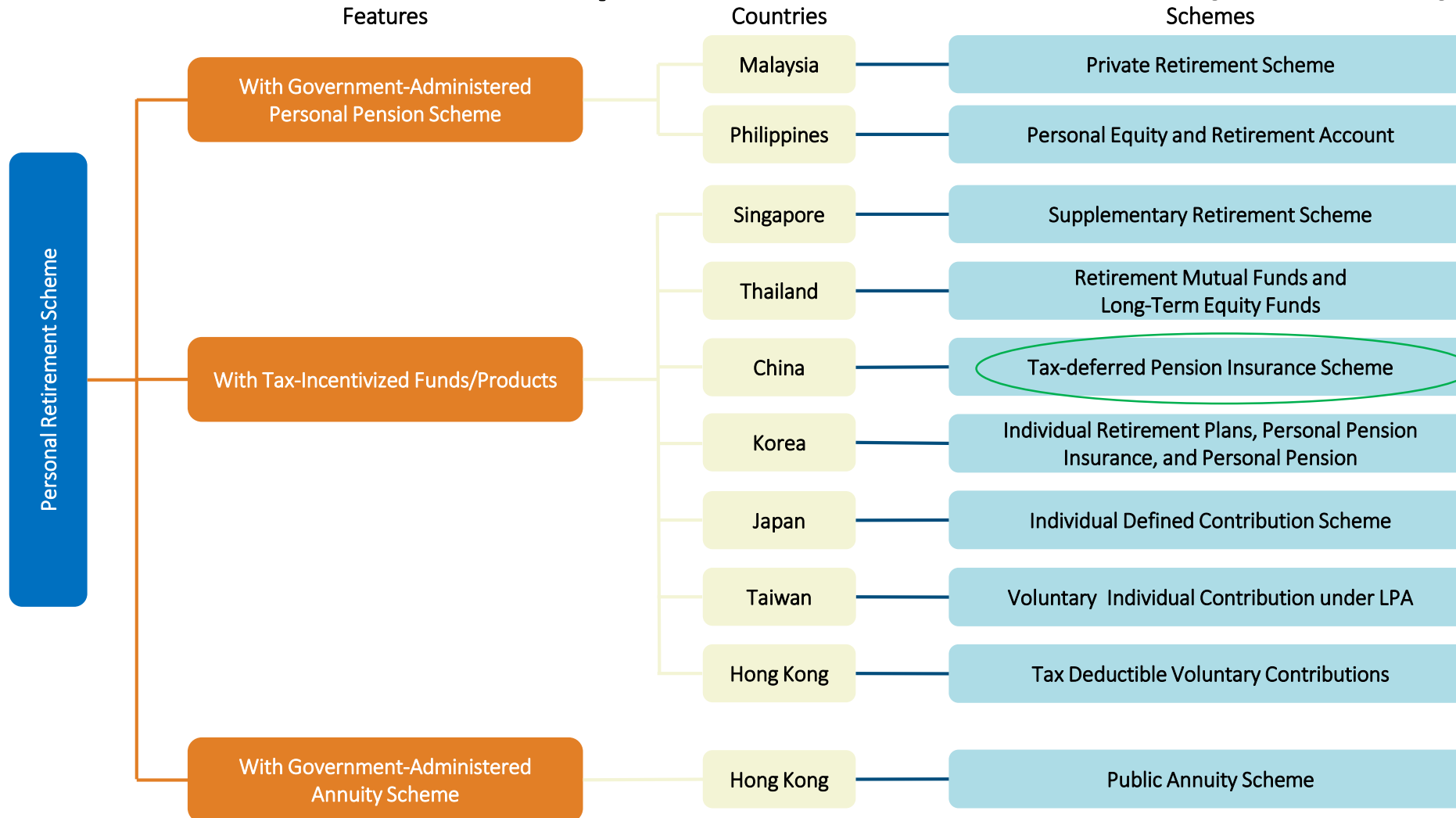
Recent Developments in Pillar 3 (cont'd)



- Malaysia PRS is so far the most formal third pillar scheme in the region
- It offers tax benefits and has an administrator dedicated to overseeing and promoting private retirement growth

Source: The Cerulli Report, 10 themes to shape Asian asset management over the next 10 years, 2018

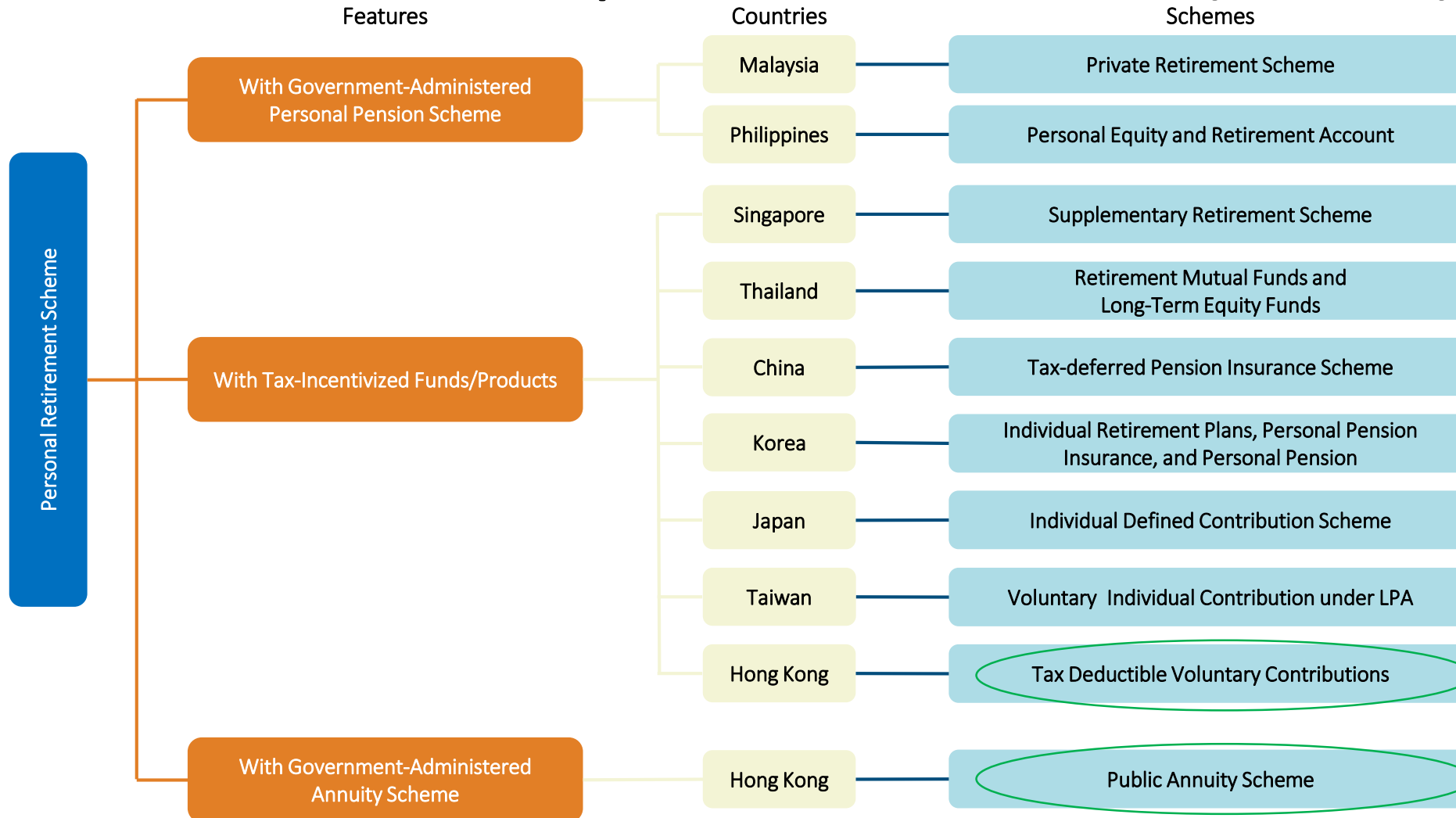
Recent Developments in Pillar 3 (cont'd)



- In May 2018, China launched a private retirement scheme by piloting individual tax-deferred pension insurance in Shanghai, Fujian Province and Suzhou Industrial Park
- The scheme allows members to defer tax on their income used to buy the product until they reach 65 and start drawing money from the policy
- 18 insurers have been allowed to provide pension insurance. We expect more to be approved as the government rolls out the scheme following pilot test

Source: The Cerulli Report, 10 themes to shape Asian asset management over the next 10 years, 2018

Recent Developments in Pillar 3 (cont'd)



- Hong Kong has also set up the Public Annuity Scheme in July 2018. It guarantees members a fixed monthly payment after making a lump-sum investment
- It aims to help those near or in retirement to manage their risk of outliving their savings
- The scheme does not offer tax incentives with its target market
- For Tax Deductible Voluntary Contributions, members can enjoy tax deduction under salaries tax. The max tax deduction cap per year is HKD60,000

Source: The Cerulli Report, 10 themes to shape Asian asset management over the next 10 years, 2018

Holistic Assessment Framework



Holistic Assessment Framework

A framework to evaluate the performance of pension system with 5 key outcomes.

Coverage

Maximizing the proportion of the working-age population participating in private pension schemes and the proportion of retirees receiving such financial support in retirement

Sustainability

Ensuring the promised retirement income will be delivered without placing burdens on government, employers or workers for financing any shortfalls

Security

Minimizing the risk of loss or misappropriation of pension assets before they are withdrawn by members

Adequacy

Ensuring people accumulate retirement benefits that could protect them from poverty, allow them to share in increased prosperity and protect them from a severe drop in living standards at retirement

Efficiency

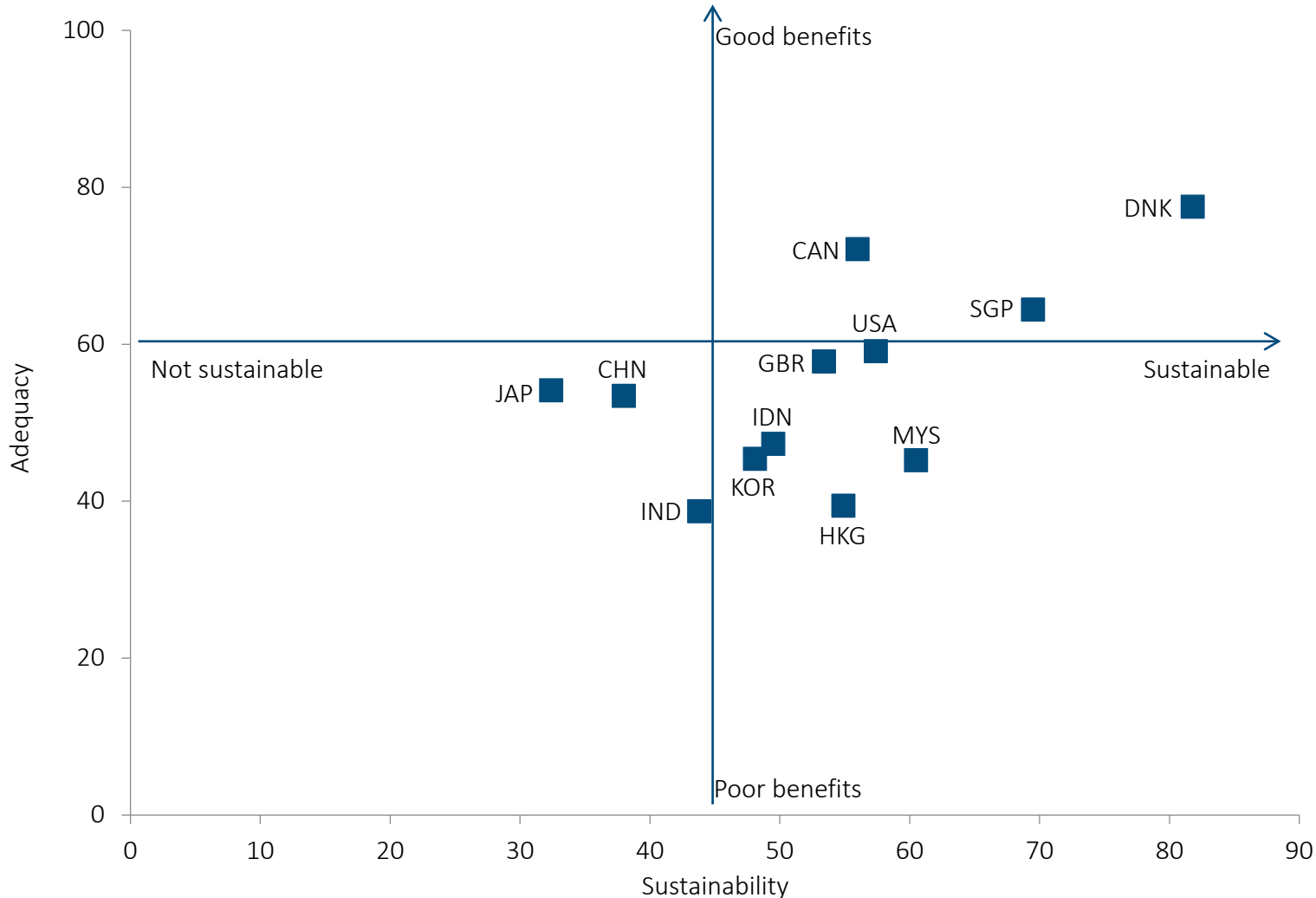
Maximizing net-of-fee returns by improving performance subject to acceptable risks

Case Study: Evaluation of the Hong Kong MPF system

Coverage	<ul style="list-style-type: none">• Very high enrolment rate (100% for both employers and employees; 70% for SEPs)
Sustainability	<ul style="list-style-type: none">• Sustainable by design (mandatory, privately managed, fully funded and defined contribution)
Security	<ul style="list-style-type: none">• Safeguarded by the sound legal and financial systems as well as regulatory and supervisory regime of MPF
Adequacy	<ul style="list-style-type: none">• One of HK's retirement protection pillars• Level of adequacy will improve as the System matures
Efficiency	<ul style="list-style-type: none">• Strive for greater efficiency and lower costs of the MPF system

Source: : MPFA, reviewing the MPF system from an outcome-based perspective

Pension Systems In Comparison



- Benefits
- System design
- Savings
- Tax support
- Home ownership
- Growth assets

- Pension coverage
- Total assets
- Contributions
- Demography
- Government debt
- Economic growth

ADEQUACY

SUSTAINABILITY

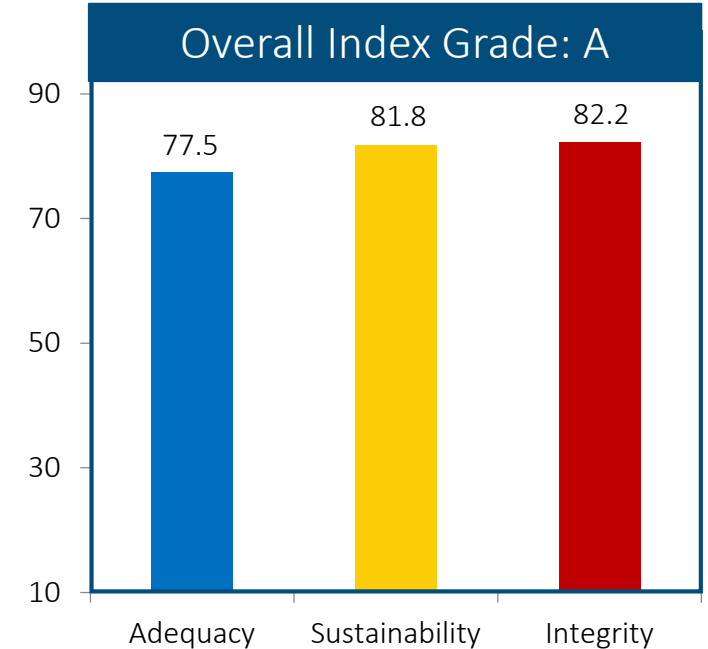
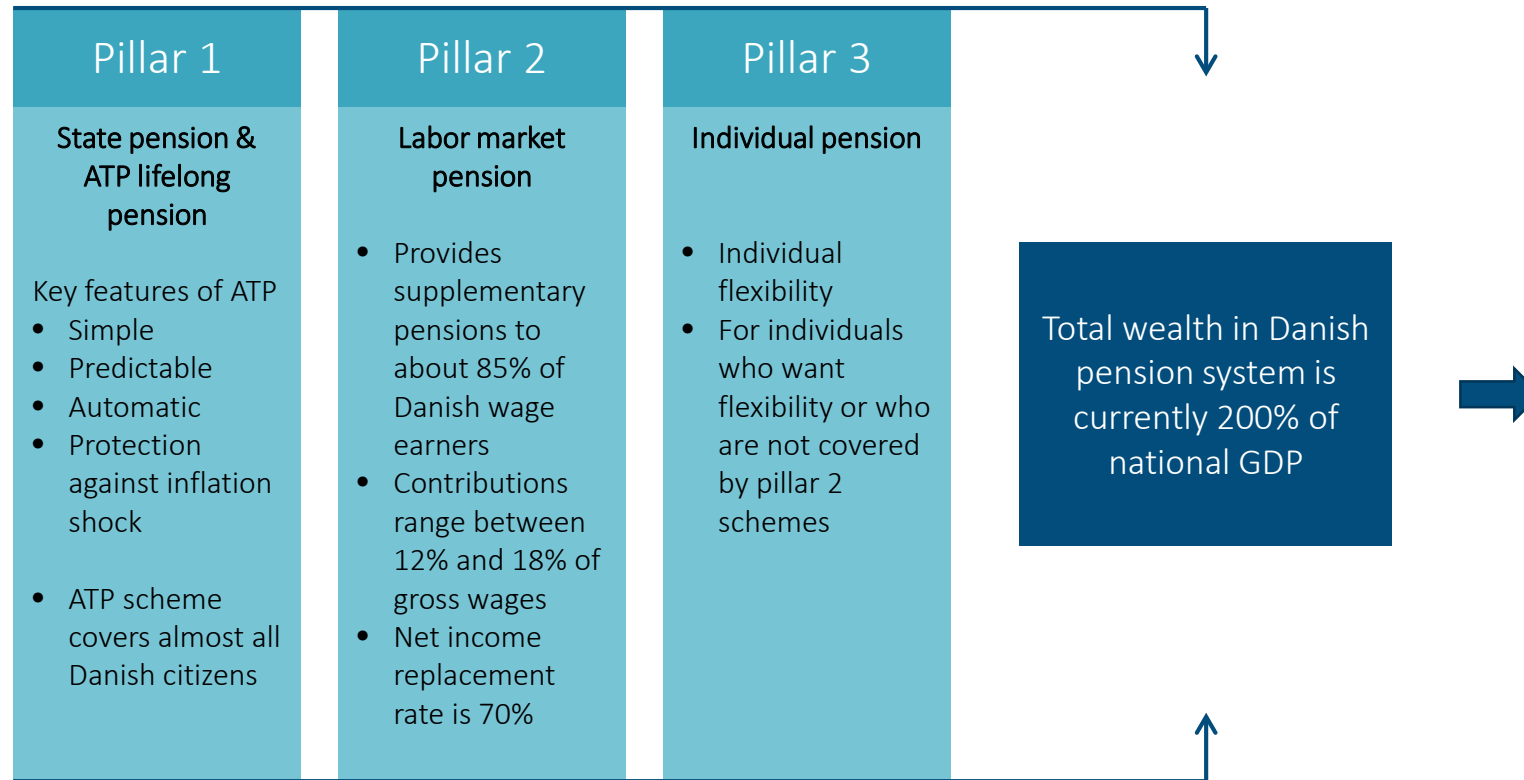
The tension between pension adequacy and financial sustainability confirms the importance of a multi-pillar system and the need for financial security in retirement to come from several sources

Source: Melbourne Mercer Global Pension Index 2018

Case Study: the Danish Pension System

A multi-pillar and robust retirement income system that delivers good benefits, is sustainable and has a high level of integrity.

Multi-pillar approach



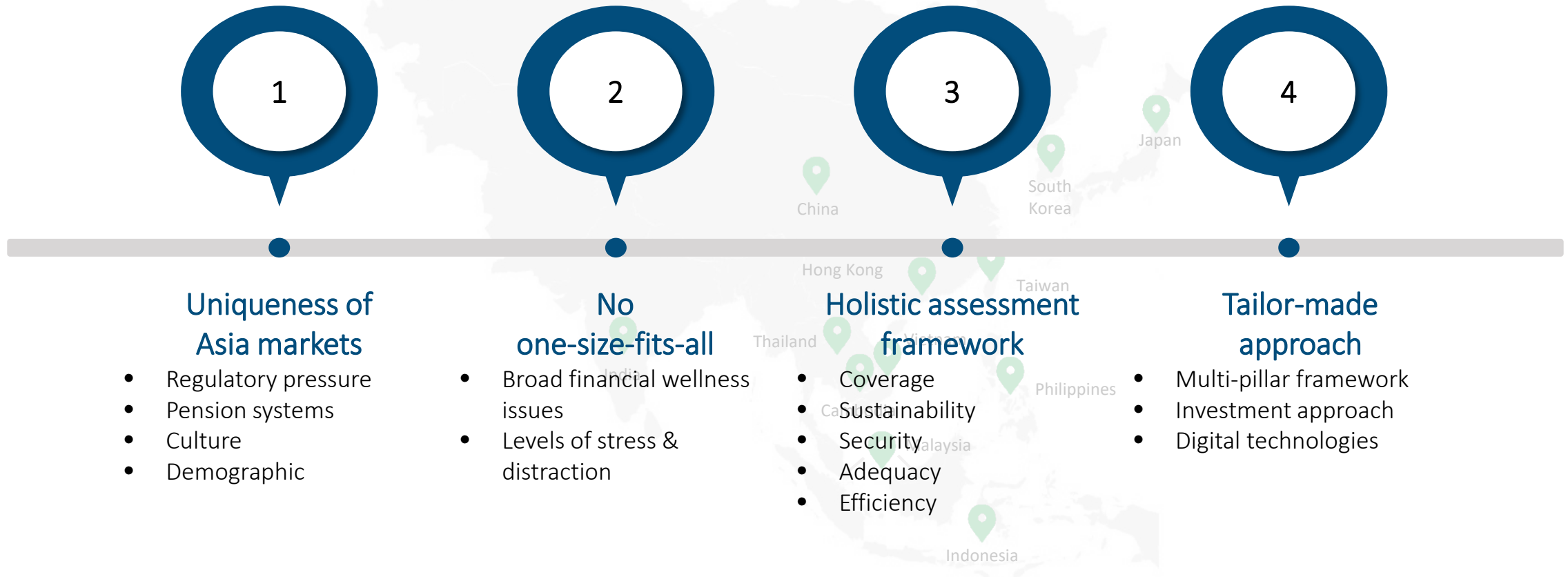
Source: World Economic Forum, Case studies in retirement system reform 2017
Melbourne Mercer Global Pension Index 2018

Key Takeaways



Key Takeaways

No one-size-fits-all solution exists when designing retirement systems.
Regional, political and cultural attitudes provide many differentiating influences.



Appendix



Biography – Elvin Tharm



Elvin Tharm
Managing Director
and Asia Retirement
Strategy & Business
Development

Mr. Elvin Tharm is currently Managing Director and Asia Retirement Strategy and Business Development of Manulife Asset Management. He is responsible for the development and execution of strategy for Manulife's retirement business in each of the markets in Asia, along with business development activities in China, Indonesia and Malaysia.

Prior to joining Manulife, Elvin was the Head of Business Development and Client Relationship for Mercer Hong Kong's Wealth business. He was responsible for bringing together pensions and investment solutions for institutional clients and asset owners across pension funds, insurance companies and endowment funds in Hong Kong, Macau and Taiwan, as well as for wealth management intermediaries across banks, private banks, investment-linked insurance and investment funds platforms across Hong Kong and Singapore.

Prior to joining Mercer, Elvin held several positions with Principal Financial Group in Hong Kong, including Chief Operating Officer, Director of Finance and Actuarial, and Director of Risk Management, covering the Hong Kong pension business (MPF and ORSO) and Principal's joint-venture asset management businesses across Asia including CCB-Principal in China and CIMB-Principal in Malaysia. Before that, Elvin was a consultant with Towers Watson in Los Angeles, California and subsequently in China covering Shanghai, Beijing, Shenzhen and Guangzhou.

Elvin graduated from the University of Iowa with a master's degree in Actuarial Science and the Iowa State University with a bachelor's degree in Mathematics. He is a Fellow of the Society of Actuaries and the Actuarial Society of Hong Kong.

Manulife's Global Presence and Leadership in Retirement



CANADA

Group Retirement Solutions

AUMA: C\$68.3 billion
No. of retirement plans: 14,500
Members enrolled: 1.5 million

#2 Group plans, by AUMA¹
#1 DC plans, by sales^{2,3}



UNITED STATES

Retirement Plan Services

AUMA: US\$173.5 billion⁴
No. of retirement plans: 58,922
Members enrolled: 2.8 million

#6 Small & mid case DC plans, by AUMA⁵
#1 Small & mid case DC plans by plans⁵
#2 Small & mid case DC plans, by sales⁵



HONG KONG

MPF & ORSO

AUMA: US\$25.0 billion
No. of retirement plans: 130,000+
Members enrolled: 1.8 million

#1 MPF market, by AUMA⁶
#1 MPF market, by net cash flows⁶



INDONESIA

Pension Funds

AUMA: US\$ 1.1 billion⁷
No. of retirement plans: 4,015
Members enrolled: 0.5+ million

#2 DC plans, by AUMA⁷

Data as of 2018 Q3 for USA, 2018 Q4 for HK, Indonesia and Canada, 1. Based on 2017 data, for capital accumulation plans; Source: 2017 Fraser Group Universe Pension Report, 2. Based on September 30, 2018 data; Source: LIMRA. 3. Includes all DC plans business, 4. RPS assets of \$170B includes approximately \$4B of rollover assets that, 5. are sub-advised by JH Investments. This \$4B in assets is eliminated from a US Divisional or Manulife total so as not to double count the assets across multiple Business Units. Pro forma: includes New York Life RPS business acquired in April 2015; Small & Mid Size market includes all plans with less than US\$100 million in assets; Source (by plans and assets): LIMRA 401kScorecard Q2 2018, Source (by AUMA): Plan Sponsor Magazine 2018 Recordkeeper Survey, data are as of December 31, 2017, 6. Mercer MPF Market Shares Report as at Dec 2018, 7. Based on December 2018 data; Source: DPLK Association; Market rank by sales or cash flows is unavailable.