One step forward, half a step back: Meeting financial goals in Asia
Table of contents

Foreword.................................................................................................................................................. 1
Overview.................................................................................................................................................. 2

Financial goals

  Saving for retirement .......................................................................................................................... 3
  Saving for a rainy day .......................................................................................................................... 4
  Saving for children’s higher education .............................................................................................. 4
  Maintaining current lifestyle ............................................................................................................. 5
  Purchasing a home ............................................................................................................................. 5

Return on investment: Current asset allocation falls short ................................................................. 6
Scenario analysis: Hindsight is 20:20 ................................................................................................. 7

Meeting financial goals in:

  China, Hong Kong, Indonesia, Japan, Malaysia, the Philippines, Singapore, Taiwan ............... 8 - 23

Conclusion............................................................................................................................................. 24

Appendices........................................................................................................................................... 25 - 28

Glossary of terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset allocation</td>
<td>The process of dividing investments among different kinds of assets, such as stocks, bonds, real estate and cash, to optimise the risk/reward tradeoff based on an individual's or institution's specific situation and goals.</td>
</tr>
<tr>
<td>Demographic dividend</td>
<td>When a population bulge transitions through working age up to retirement, generating income levels in excess of consumption, increased savings and investment and generally higher economic activity.</td>
</tr>
<tr>
<td>Financial wealth</td>
<td>Includes individual household bank accounts, pension reserves, life insurance reserves, mutual fund assets, individual holdings of other securities and other financial assets held by households.</td>
</tr>
<tr>
<td>Financial wealth to income ratio</td>
<td>A measure of an economy's household financial wealth to gross domestic product (GDP).</td>
</tr>
<tr>
<td>Longevity risk</td>
<td>The risk that a retiree will outlive his or her sources of income.</td>
</tr>
<tr>
<td>Old age dependency ratio</td>
<td>The number of elderly individuals for every 100 working age adults.</td>
</tr>
<tr>
<td>Retirement income security</td>
<td>Having sufficient income to sustain a comfortable standard of living throughout an individual's retirement years, regardless of how long that period may last.</td>
</tr>
<tr>
<td>Investment returns shortfall</td>
<td>The percentage that forecast annual local-currency investment returns fall self-reported investment allocation falls short of the expected annual cost growth of financial goals.</td>
</tr>
</tbody>
</table>

Foreword by Michael Dommermuth, Executive Vice President, Head of Wealth and Asset Management, Asia, Manulife Asset Management

The five previous reports in Manulife Asset Management’s ongoing Aging Asia series have examined Asia’s rapidly aging populations and retirement through a variety of lenses. In the process we have revealed that ASEAN markets are not as youthful as many presume and that individuals across the region are increasingly taking responsibility for retirement income security. We have also delved into the relationship between accrued assets and retirement income, the prominence of cash in household retirement savings and the implications of increasing longevity for retirement planning.

However, while retirement is one of the biggest and most important goals that individuals save for, in reality it is just one of many “big-ticket” financial objectives that investors across Asia are striving toward.

In this report, we leverage the finding of a recent proprietary survey of investor attitudes across eight Asian markets – China, Hong Kong, Indonesia, Japan, Malaysia, the Philippines, Singapore and Taiwan – to widen our focus and examine the bigger picture of self-reported financial goals and the saving and investment strategies that are being employed to meet these goals.

We find that investors across Asia are working hard, saving and investing to meet financial goals that range from preparing to fund retirement and children’s educations to meeting healthcare, living and housing expenses as they arise. However, each of these objectives is a moving target. Our analysis reveals that the aggregate cost of these goals is rising more quickly than the average investor’s accrued assets are expected to grow – for every one step forward in terms of saving, rising costs are essentially pushing investors half a step back.

Examining the mismatch between the historical growth rates of the cost of financial goals across Asia and the historical returns on self-reported investment allocations allows us to quantify how short investors in each subject market are likely to find themselves. In addition, it enables us to explore market-specific opportunities to help close the gap.

Manulife Asset Management has a more-than-100-year history of operating in Asia. During this time we have participated in the development of regional equity, fixed income and asset allocation markets. In the process we have accrued deep knowledge of the investment opportunities available to help individuals and households maximise the growth potential of their savings and take leaps forward in terms of meeting their key financial goals.

We hope that this report is as engaging and instructive to our readers as it was interesting and illuminating for us to research and write. The entire Aging Asia series of reports, associated commentaries and related resources can be accessed at: www.manulifeam.com/agingasia.

---

2. Based on findings of the Manulife Investment Sentiment Index (MISI). MISI in Asia is a quarterly, proprietary survey measuring and tracking investors’ views across eight markets in the region on the attitudes towards key asset classes and related issues. MISI findings quoted in this paper are the result of field research conducted between 30 May and 27 June 2014. See Appendix 1 for further details on the MISI survey methodology.
Overview

Among the key finding of the Aging Asia series to date, one has resonated particularly clearly: as individuals across Asia increasingly take responsibility for their own retirement income security, an entrenched preference for holding cash deposits is compromising their returns potential and increasing longevity risk, the risk that they outlive their savings.

This report widens the focus to examine how this preference for holding cash affects a variety of short- and long-term financial objectives that individuals across Asia are striving toward. A recent Manulife Investment Sentiment Index (MISI) survey asked investors across the region to rank their top financial goals, in the process identifying the key big-ticket objectives that individuals expect their savings and investments to provide for.

Unsurprisingly in the context of the Aging Asia series, respondents ranked saving for retirement as their leading financial goal on a pan-Asia basis. This was followed closely by saving for a “rainy day,” paying for children’s higher education, maintaining their lifestyle and purchasing a primary residence.

Perhaps of equal interest, the survey allowed us to examine the saving and investment strategies that investors are employing to meet their financial goals. Self-reported asset allocations confirm the finding that investors across the region rely heavily on cash savings despite record low interest rates. We find that remaining assets are invested in a variety of ways, enabling us to evaluate how likely investors in individual markets are to meet their financial goals.

We accomplished this by looking at the historical growth rates of the costs associated with the leading financial goals identified and then comparing this to the five-year historical growth rates of self-reported asset allocation. We found that, on a pan-Asia basis, the cost of the five leading financial goals increased 6.0% per annum (4.4% including Japan) whereas self-reported investment portfolios delivered average total returns of 2.7% per annum (3.1% including Japan). The difference between these two reveals that the average investor across Asia faces a potential investment returns shortfall of 3.3% per annum (1.3% including Japan), assuming all things remain equal3.

This implies that investors on average must achieve 6.0% return per annum just to keep pace with the rising price of their financial goals, let alone gaining ground on those goals. However, we also found that relatively small changes to current asset allocations have the potential to significantly offset or even erase the anticipated shortfalls in most markets.

Financial goals

While individual investors across Asia have a wide variety of financial goals, our survey revealed that virtually every country and territory has a similar top five. Indeed, although each territory has a unique order of importance for these objectives, the vast majority identified:

1. Saving for retirement
2. Saving for a “rainy day”, which we interpret as preparing for unexpected expenses such as a healthcare emergency
3. Saving for children’s higher education or wedding expenses, among which we chose to focus on higher education (ie, tertiary education) as the less variable cost item among the two
4. Maintaining current lifestyle, which we consider to be pre-retirement living expenses
5. Saving for or purchasing a home or paying down a mortgage

Our research reveals that the cost of these five key financial goals is rising by an average annualised 6.0% across the markets under review (4.4% including Japan), suggesting that investors need their savings to grow by an equivalent amount in order to just match the cost inflation of their objectives.

Of course other important goals were highlighted in some other markets, and these will be introduced later in this report. However, the overwhelming emphasis on these five suggests that it is important to understand what they entail and how quickly related costs are rising before moving forward.

3. Figures are presented “ex-Japan” as Japan’s results are skewed on the cost growth side by its history of low inflation and on the investment returns side by a recent spate of strong market performance under Abenomics. See the “Meeting financial goals in Japan” section for further details. Source: Manulife Asset Management based on MISI data and returns sources outlined in Appendix 2.
Figure 1: Asian investors’ self-reported financial goals (% ranking as first or second goal)

Source: MISI survey, May-June 2014. See Appendix 1 for further details on the MISI survey.

1. Saving for retirement

Retirement was ranked the leading financial goal on a pan-Asia basis, which comes as little surprise given the region’s relatively low levels of government social spending and history of high inflation. Among the individual territories, retirement topped the list in Hong Kong, Singapore and Taiwan and was identified as the second or third most important goal in Indonesia, Japan, Malaysia and the Philippines.

While the time horizon of each of the goals identified in this report varies, the retirement objective has by far the longest horizon given the median age of survey respondents in the eight markets is about 39. This implies that the cost of the retirement goal will see the highest degree of overall cost growth as it is subject to the longest compounding period – meaning that every step an individual falls behind in matching the cost growth of the retirement goal also compounds over time.

In the case of retirement, of course, the associated cost also continues to compound after an individual leaves the active workforce. Our Aging Asia report Live long and prosper: Retirement and longevity risk revealed that the average married couple in Asia should be prepared for their joint retirement to last anywhere from 21 to 33 years after leaving the active labour force, and associated costs will continue to compound over this span.

Figure 2: Annualised CPI growth, 2009-14

Note: CPI refers to Consumer Price Index. Presented in local currency terms. Source: National Bureau of Statistics of China; Hong Kong Census and Statistics Department; Bank Negara Indonesia, Statistics Indonesia; Statistics Bureau of Japan; Department of Statistics, Malaysia; Bangko Sentral ng Pilipina; Monetary Authority of Singapore; National Statistics, Republic of China (Taiwan).

“Every step an individual falls behind in matching the cost growth of the retirement goal also compounds over time.”

1. MISI, June-July 2014.
Saving for a rainy day

Interpreting what people consider to be “rainy day” expenses is subjective, but in our view it is essentially preparing for an unexpected emergency. Although respondents identified healthcare or medical expenses as a separate and generally lower ranked financial goal, we consider this to refer to predictable (i.e., expected or known) healthcare costs. Thus, unanticipated healthcare costs such as the onset of a serious disease or a traumatic accident are likely a key component that falls under the rubric of saving for a rainy day.

Saving for a rainy day ranked the top financial goal in Malaysia and the Philippines and the second in China, Hong Kong, Japan and Singapore. The generally high level of concern expressed in the more developed North Asian markets is likely related to the fact that these countries and territories as a rule are more aged, more urban and face higher costs of living that keep the topic front of mind.

That being said, Figure 3 illustrates that developing Southeast Asian markets such as Malaysia and the Philippines have ample reason for concern, as the cost of healthcare has historically risen most dramatically in Southeast Asia and China, where generally higher economic growth has been accompanied by rising standards of living, expanding urban and middle class populations and increasing healthcare demand.

Figure 3: Annualised out-of-pocket healthcare spending and GDP growth, 2009-14

Saving for children’s higher education

This category actually includes preparing for a child’s higher education (i.e., tertiary education) or wedding expenses. However, in the context of the current analysis we are taking it to refer to higher education alone as this is a more predictable and easily quantifiable cost faced by families with children. Weddings, on the other hand, are uncertain events and can cost dramatically different amounts for different families/individuals.

It is unsurprising to us that higher education ranked in the top five on a pan-Asia basis and in each individual market. Indeed, Asia is well known for the level of cultural importance placed on education across more developed and developing markets and the opportunities that higher education affords are clear in both milieus. Tertiary education is essentially a basic requirement for jobs in the technology, financial services and professional industries that predominate in most of the more developed markets in the region. Meanwhile, in developing economies with relatively young populations and robust GDP growth outlooks, higher education can allow graduates to tap into the resulting economic dynamism and significantly boost their income potential.

Figure 4: Annualised education cost growth, 2010-14

Note: GDP refers to Gross Domestic Product. Presented in local currency terms.

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP Growth (% change)</th>
<th>Out-of-pocket healthcare spending growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>12.3%</td>
<td>13.3%</td>
</tr>
<tr>
<td>Singapore</td>
<td>11.5%</td>
<td>13.0%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>11.9%</td>
<td>11.9%</td>
</tr>
<tr>
<td>Philippines</td>
<td>7.3%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Singapore</td>
<td>6.1%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>4.3%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>1.7%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Japan</td>
<td>1.9%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>8.5%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Singapore</td>
<td>5.6%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>6.3%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Philippines</td>
<td>7.3%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Singapore</td>
<td>6.9%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>4.3%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>3.1%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Japan</td>
<td>1.7%</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

Note: Presented in local currency terms. Indonesia, Japan, Malaysia and Singapore specifically reference higher (tertiary) education spending. The Philippines and Taiwan reflect private spending on education in general. China and Hong Kong reflect education-related components of CPI.

Source: China estimate from Tsang, Mun C., “Costs of Education in China.” Columbia Teachers College, 2014; Hong Kong Census & Statistics Department; Indonesia, McKinsey Global Institute; Statistics Japan; The Malaysian Mail Online; Philippines: National Statistical Coordination Board; Statistics Singapore Household Expenditure Survey; National Statistics, Republic of China (Taiwan).
4 Maintaining current lifestyle

The “maintaining current lifestyle” goal – or “living expenses” goal – can in some ways be considered analogous to the retirement goal, with the two categories delineated by the stage of life that they refer to. Indeed, we consider CPI growth to be the most appropriate proxy for price increases for both goals – if anything, historical CPI is more appropriate to the living expenses goal as it refers to spending in the coming 1, 5 or 10 years rather than 20, 30 or more years down the road!

Thus, living expenses, in some senses, breaks the mould of the other financial goals under consideration since it is not as much something to be saved for as to be met on a continuing basis. That being said, as Figure 2 illustrates, there is no doubt that the cost of living is increasing in Asia and that this financial goal, like retirement, will be subject to compounding over an extended period of time.

Respondents in China and Japan identified living expenses as their leading financial goal, while it was the second highest in Malaysia and Taiwan.

5 Purchasing a home

Buying a home is a major milestone in most countries and territories worldwide and for most individuals is the single largest purchase that they will make in their lives – and thus is likely one of the largest individual portions of an individual investor’s household wealth. Indeed, Asset rich, income poor: Key components of retirement income security for aging Asia found that an average of 43% of household wealth in the more developed markets of Asia (Hong Kong, Japan, Singapore, South Korea and Taiwan) was allocated to real estate, usually a primary residence.

Against this backdrop, real estate is one of the most difficult financial goals to predict, as the market tends to be highly cyclical and subject to booms and busts. What we can say with a degree of confidence is that investors and savers in the developing markets in our survey are likely to face relatively sustained real estate cost growth as they have significant young populations, are relatively early in the process of urbanisation and their property markets are thus subject to a high degree of pent-up demand as their economies grow and standards of living rise. The more developed and aged markets in the study are harder to predict in the long term as demand dynamics could change, but in the coming 10 to 15 years will surely continue to see strong demand due to ongoing housing shortages in some markets and upgrading demand in most.

This is illustrated in Figure 5, which shows a degree of correlation between a country or territory’s age profile and its historical real estate cost growth rate. Younger markets, such as Indonesia, Malaysia and the Philippines, tend to cluster around a growth rate of 6% to 9% per annum while more aged markets are all over the map due to idiosyncratic factors. Taiwan and Singapore hover around the same range as the younger markets due to government policies which influence the market by strongly supporting home buyers. In Hong Kong, on the other hand, the property market is distorted significantly by overseas buyers, most notably from Mainland China. Meanwhile, in Japan, as with so many of the other factors discussed in this report, two decades of economic stagnation have heavily depressed property demand and, hence, home prices.

Figure 5: Annualised residential property cost growth vs median age, 2009-14

Note: Presented in local currency terms. Median age data is for 2010.
Source: Residential property growth: China, eHomeday.com; Hong Kong, Rating and Valuation Department; Bank of Indonesia; The Land Institute of Japan; Malaysia Valuation & Property Services; Singapore Urban Redevelopment Authority; Taiwan: Sinyi Real Estate Planning and Research. Median age data from United Nations Population Division, World Population Prospects: The 2012 Revision and National Statistics, Republic of China (Taiwan).
Return on investment: Current asset allocation falls short

With the cost of the five key financial goals Asian investors are targeting rising roughly 6.0% per annum, savers and investors in the region face an uphill battle. Essentially, returns on investment in the region must at least match this level or real aggregate savings will grow at a rate slower than the total amount set aside each month or year. If returns fall short of 6.0% in any given year, savers and investors in the region will be taking half a step back for every step forward.

Our analysis of self-reported asset allocation in the region and the potential for returns painted a worrying picture. We found that, on a pan-Asia basis, local-currency cash holdings account for a disproportionately large portion of self-reported assets at about 37% (see Figure 6). This rises to about 42% if foreign-currency cash holdings are added – short of the 58% average cited in The Asian cash drag: Alternatives for a more diversified portfolio, but still a significant weight. Insurance came in as a distant second, followed by stocks and “others”, with the latter being a black box in terms of constituent assets.

We next turned our attention to the historical returns generated by each of these asset classes as a proxy for the potential returns that investors can expect going forward. A combination of investors’ self-reported asset allocation in Figure 6 and weighted historical returns on individual underlying asset classes yields an approximation of the actual returns that these portfolios would have generated if asset allocation had remained static over the past five years.

A comparison of our estimate of expected growth in the cost of the top five financial goals and our parallel forecast of investment returns based on self-reported asset allocation reveals a sobering picture.

We find that on a pan-Asia basis, investors’ self-reported investment portfolios have returned an average of 2.7% per annum over the past five years (3.1% including Japan) while the cost of their five most cited financial goals have risen by an average of 6.0% per annum (4.4% including Japan). This leaves the average investor in the region facing a potential returns shortfall of 3.3% (1.3% including Japan).

Note: Presented in local currency terms.
When this analysis is brought down to the local market level, we find that annual potential returns shortfalls range from 0.3% in Taiwan to 6.6% in Indonesia. Japan is the exception with a potential annual surplus of 2.7%, but this almost certainly an aberration brought on by a combination of a long-standing period of almost zero inflation and a recent run of spectacular stock market returns driven by Abenomics, Prime Minister Shinzo Abe’s unprecedented monetary and fiscal policy aimed at returning the nation to stable growth. Few commentators expect the Japanese economy or markets to be able to sustain this performance in the long run.

This leaves us with little doubt that current self-reported asset allocation is not an efficient means of saving to meet the key financial goals identified by investors across Asia. While equities and fixed income have historically contributed the most attractive returns, their relatively small weights in self-reported portfolios in many markets mean that these returns are severely diluted by other, lower-yielding asset classes – cash in particular.

When this analysis is brought down to the local market level, we find that annual potential returns shortfalls range from 0.3% in Taiwan to 6.6% in Indonesia. Japan is the exception with a potential annual surplus of 2.7%, but this almost certainly an aberration brought on by a combination of a long-standing period of almost zero inflation and a recent run of spectacular stock market returns driven by Abenomics, Prime Minister Shinzo Abe’s unprecedented monetary and fiscal policy aimed at returning the nation to stable growth. Few commentators expect the Japanese economy or markets to be able to sustain this performance in the long run.

This leaves us with little doubt that current self-reported asset allocation is not an efficient means of saving to meet the key financial goals identified by investors across Asia. While equities and fixed income have historically contributed the most attractive returns, their relatively small weights in self-reported portfolios in many markets mean that these returns are severely diluted by other, lower-yielding asset classes – cash in particular.

**Scenario analysis: Hindsight is 20:20**

One of the most intriguing results of our analysis is the ability to explore “what if” scenarios. With the 20:20 vision afforded by hindsight, we have the luxury to see how investors’ historical returns shortfalls would have been affected by various changes to their asset allocation.

In the market overviews that follow, we take a close look at the forecast annual investment returns, expected annual cost growth of financial goals and annual potential investment returns shortfalls in each of the eight subject markets. We also look closely at how asset allocation affects these shortfalls, and run scenario analyses to illustrate how changes to investment allocations could affect the shortfalls that investors face – dramatically in some cases.

We are aware that some of the subject markets are volatile and others face challenges in the prevailing slow-growth global economic environment. However, we also point out that in many cases there are multiple options available to investors to maximise their returns potential and possibly lower their potential returns shortfalls.
Meeting financial goals in China

There was no runaway winner for the title of leading financial goal for Mainland China investors. Maintaining current lifestyle was the most cited at 18% while saving for a rainy day came in a close second at 17% and saving for children’s higher education at 14.5%. China is an interesting case as it has risen from a virtually third-world country just four decades ago to being the world’s second-largest economy in 2014.

Alongside this rapid growth, China has seen rising wages drive average per-capita GDP to around $13,000 in 2014 from about $1,600 in 1994. If this growth rate were to continue and China’s currently high savings rate of 31% were to remain flat, there would potentially be little reason for the nation’s investors to worry about their financial goals. However, there are storm clouds on the horizon as China’s population is rapidly aging, with its active labour force having peaked and begun to decline in 2011 and its economy having slowed from the double-digit average growth rates enjoyed during the 1990s and 2000s to the 7% level forecast for 2015.

Keeping up with the Joneses – maintaining current lifestyle

China has seen an unprecedented number of its citizens rise from poverty into the middle class over the past few decades of rapid economic growth, in the process turning the once predominantly rural nation into one where about 54% of citizens live in cities. Some of the nation’s policy framework has struggled to keep up, in particular its hukou, or family registration system. While the government has pledged hukou reform, the ancient system continues to tie new urban residents to their rural addresses, in the process limiting access to social services such as public school education and subsidised healthcare in their cities of residence.

In a country that has experienced such rapid economic growth in such a short period, many citizens are well aware that their recently attained higher standard of living can be tenuous. Indeed, the fact that saving for a raining day was the second most cited financial goal points to the same anxiety, as out-of-pocket healthcare costs increased about 13% per annum over the past five years and a healthcare emergency is a common cause of poverty in China.

---

6. 1994 and 2014F per-capita GDP based on purchasing power parity in current international dollars; IMF, World Economic Outlook Database, October 2014.
Higher education – the high cost of getting ahead

Chinese investors’ focus on education is not unrelated to the above, as China’s shrinking workforce, slowing economy and rising wages necessitate a simultaneous shift from low-end manufacturing based on cheap and abundant labour to higher-value-add industries that drive productivity enhancement and profit growth by upgrading technology and human capital. Higher education is a basic requirement to facilitate this trend, and that means that young Chinese men and women will have to struggle to stand out among the nation’s more than seven million university graduates per year.\(^\text{13}\)

But this comes at a cost, with the price of education in China having risen by an average of 7.0% per annum over the past four years and, for those who want to go the extra mile, the average cost of a university education overseas has risen 4.4% per annum over the same period.\(^\text{14}\)

China at a turning point

Whether or not Chinese investors will be able to meet their financial goals is a hot topic of debate. Whereas many are focused on the nation’s slowing economic growth and aging population, we highlight the government’s commitment to reforming its social, economic, political, legal, education and healthcare frameworks to shift from its position as “workshop of the world” to a nimble pioneer in technology and human capital. Many companies are already emerging as champions of this new model in the technology, e-commerce and pharmaceuticals industries (see Manulife Asset Management’s *The Great Upgrade: Fixed income opportunities as China approaches the Lewis Turning Point*, September 2014).

Investors looking for new opportunities

That being said, Chinese investors are currently in a challenging position. We have often commented that the government is currently facing a catch 22: it is implementing reforms to lay the foundations for long-term growth, but some of these reforms actually slow short-term growth. Chinese markets reflected this catch 22 over much of the past five years, delivering lacklustre returns even as important reforms were implemented. The chart below reflects this situation, with even the 51.7% gain the CSI 300 posted in 2014 not being enough to take the edge off of the 4.0% shortfall that investors potentially face.

China’s potential returns shortfall if a percentage of current allocation to local currency switched to local equity or fixed income

<table>
<thead>
<tr>
<th>Original</th>
<th>+10% EQ</th>
<th>+20% EQ</th>
<th>+50% EQ</th>
<th>+10% FI</th>
<th>+20% FI</th>
<th>+50% FI</th>
</tr>
</thead>
<tbody>
<tr>
<td>-3.98%</td>
<td>-4.01%</td>
<td>-4.04%</td>
<td>-3.94%</td>
<td>-3.90%</td>
<td>-3.78%</td>
<td></td>
</tr>
</tbody>
</table>

Note: EQ = Equities, FI = Fixed income. Returns quoted represent potential returns if these allocation shifts had been made on 1 January 2009 and remained static through 31 December 2014.

Source: Manulife Asset Management based on MISI data and returns sources outlined in Appendix 2.

However, in this case we do not consider historical returns to be a strong indicator of potential returns going forward. We believe that the reforms the government is putting in place will lead to renewed growth. In addition, we expect the continuing integration of China’s markets into the global financial system to bring increased international investment flows to the market while also opening channels for local investors to access overseas markets.

Indeed, a look at current self-reported asset allocation reveals that Chinese investors currently have one of the highest levels of exposure to capital markets among their peers, with 52.5% of their assets allocated to equity, fixed income, mutual funds, ETFs and investment-linked insurance products combined. Thus, as China’s capital account opens it is likely that at least a portion of this amount could find its way into foreign markets with the potential for higher returns and lower risk based on diversification.

---

14. Average four-year degree and living costs across the US, UK, Australia and Singapore. Sourced from national statistics data for tuition price growth and national inflation for living costs.
Meeting financial goals in Hong Kong

The number of Hong Kong investors ranking retirement as a leading financial goal led other objectives handily, at 25.1%. This was followed by a tie for second place between saving for a rainy day and purchasing a home, at 15.1% each. At first glance it may seem that Hong Kongers are well placed to meet these goals – they are among the richest individuals in Asia, with per-capita GDP of more than $55,000 in 2014\(^{15}\), and have a globally integrated economy with deep and active financial markets. However, a closer look at their key financial goals shows that challenges remain.

In the bigger picture, the challenges are sobering, as Hong Kong is one of the most aged territories in Asia, with a median age of 41.1 as if 2010 that is projected to rise to 53.9 by 2050. Similarly, its old age dependency ratio is forecast to climb from 17 to 67 in the same period, respectively, leaving it second only to Japan’s\(^{16}\).

Retirement – public safety net not a coverall

The report Funding the golden years: The financial and economic factors shaping pension provision for Asia’s rapidly aging populations ranked Hong Kong as having “most favourable conditions” for retirement preparedness relative to its peers in Asia. This determination was largely based on the factors outlined above, which represent significant financial resources and opportunities to put those resources to work, as well as a mandatory pension scheme – the Mandatory Provident Fund or MPF – with a relatively high coverage ratio.

On the other hand, Hong Kongers saving for retirement face one of the highest inflation rates in the region, at an average of 4.0% over the past five years, meaning that retirement savings have had to return at least 4.0% per annum just to maintain their purchasing power, let alone grow. Meanwhile, MPF balances remain generally low, at an average of about US$18,500\(^{17}\), approved investment options under the scheme are generally conservative compared to options available in the retail mutual fund market and the balance is paid out as a lump sum upon retirement rather than supporting an annuity to supplement other sources of household income.

---

15. 2014F per-capita GDP based on purchasing power parity in current international dollars; IMF, World Economic Outlook Database, October 2014.
Saving for a rainy day – the high price of private healthcare

In theory the potential to face emergency healthcare costs should not affect Hong Kongers’ financial goals as the territory provides universal healthcare to all legal residents. That being said, the current heavily subsidised system is creaking, with hospitals and medical staff overburdened, patient wait times growing and costs spiralling. Under the current healthcare financing formula, spending on health is estimated to account for 27% of Hong Kong’s total budget by 2033. This is not surprising, given our research reveals that out-of-pocket healthcare spending rose 6.9% per annum over the past five years.

Healthcare is currently in the spotlight in Hong Kong, with the government mulling health financing reform that would encourage the middle and upper classes to purchase voluntary health insurance and begin to patronise the private healthcare system. Whether this reform is adopted or not, out-of-pocket healthcare spending seems set to continue rising in Hong Kong – either via potentially higher user fees, increased taxation or the addition of private insurance premiums.

Hong Kongers well positioned to overcome returns shortfall

Our research shows that – based on historical cost growth, current self-reported asset allocation and historical asset growth rates – Hong Kongers face an aggregate 2.5% per annum shortfall in meeting their five most cited financial goals. However, we find that this is not necessarily due to lack of financial resources but more likely to the allocation of those resources.

Indeed, self-reported asset allocation shows that Hong Kongers hold more than 45% of their financial resources in local (31.3%) and foreign (14.1%) currency cash. These assets earn little or no return amid current low interest rates – and certainly do not keep pace with inflation.

The silver lining around this cloud is that Hong Kongers can significantly cut the potential shortfall they face by making relatively small changes to their asset allocation. As the chart on the right illustrates, shifting just 20% of their local-currency cash holdings to a portfolio of domestic equities has the potential to cut their projected shortfall to 1.95% from 2.54%. A more aggressive shift of 50% could cut the shortfall to just 1.05%. Similarly, shifting 50% to a conservative local bond portfolio could lower the projected shortfall to 2.01% with potentially limited risk exposure.

Alternatives for a more diversified portfolio

Hong Kong’s deep financial markets, relatively financially savvy population and high level of integration with the global economy mean that the portfolio re-allocations suggested above should be relatively easy to effect. However, shifting a percentage of holdings from local-currency cash to local-market equities or bonds is just the start. Hong Kongers can choose from a variety of investment options that have the potential to deliver even higher returns, particularly as they have relatively easy access to overseas investment markets which present numerous opportunities for attractive returns.

18. He, Alex. “Give Hong Kong people more incentives to switch to private health care.” South China Morning Post, 28 December 2014.
Meeting financial goals in Indonesia

Indonesian investors were unique among survey respondents as saving for children’s higher education was the most frequently cited financial goal, at 30.7%. This was followed by retirement at 23.1% and saving for a rainy day at 18.6%. Other important goals to note for Indonesia are known (ie, expected) healthcare costs at 7.0% and saving for a big-ticket item at 6.5%.

This focus on education does not come as a surprise. While Indonesia is a dynamic, growing economy where the active labour force is expected to continue to account for more than 65% of the population through 2050¹⁹, some argue that its education sector jeopardises the country’s economic growth potential. Similarly, with per-capita GDP of $10,157²⁰ and relatively shallow financial markets, concern over retirement is likely well founded – indeed, Funding the golden years found that Indonesia faced “challenging conditions” in terms of retirement preparedness.

Children’s higher education – does the school system make the grade?

Indonesia arguably has a golden opportunity to significantly boost its economic growth potential in the coming decades. With one of the youngest populations in Asia and robust GDP growth potential, providing its youth with solid educational foundations has the potential to pay high dividends going forward.

However, the current education system may not be up to the task. The government currently spends roughly 3.6% of GDP²¹ (versus the OECD average of 6.1%²²) on an education system that many believe is not meeting the needs of students as they move up through the system – Indonesia currently has 170,000 primary schools, 40,000 junior high schools and just 26,000 high schools²³. By the time students reach post-secondary school, the gross enrollment rate has fallen to 32%²⁴ and 62% of these students are attending private institutions²⁵.

---

20. 2014F per-capita GDP based on purchasing power parity in current international dollars; IMF, World Economic Outlook Database, October 2014.
22. OECD. Education at a Glance 2014: OECD Indicators.
Thus, Indonesian families are taking primary economic responsibility for tertiary education and are facing rapidly rising expenses in the process. Over the past five years out-of-pocket spending on post-secondary education in Indonesia rose an astounding 15.1% per annum.

Retirement – funding the golden years

The Aging Asia series has previously pointed out that retirement in the western sense of leaving the workforce at 60-65 years of age is a relatively new development for Indonesia, and one that has not spread far beyond more affluent individuals in urban areas. Indeed, rural residents mostly continue to work until their health prevents it. However, as Indonesia develops, per-capita incomes rise and younger people increasingly move to the city, the goal of a formal retirement is likely to become more widespread.

As this trend emerges, Indonesians will find that there is currently limited infrastructure in place to build their retirement pots. Generally low government social spending and limited pension coverage contribute to this, but at a more basic level the challenge is perhaps best represented by the fact that just 20% of Indonesians have an account of any kind with a formal financial institution. This obviously greatly compromises individuals’ abilities to save for any of their major financial goals – let alone retirement – while the cost of living continues to rise, having increased an average of 6.3% per annum over the past five years.

Limited asset allocation options

Given Indonesians’ generally low level of participation in the formal financial system, it will come as little surprise that even the relatively economically advantaged demographic included in the MISI survey reported just 21.8% capital market exposure, the lowest level among the nations covered in this report. The bulk of this was in investment-linked insurance plans. On the flipside, Indonesians also reported the highest level of local currency exposure at 47.5%.

This is at least in part because even Indonesians that have bank and brokerage accounts have access to only limited investment opportunities. Despite this, our scenario analysis reveals that Indonesians could cut their 6.58% potential returns shortfall – the highest in the region – dramatically by just shifting a portion of their local-currency holdings to domestic equities. Indeed, shifting 50% of their local-currency holdings to local-market equities could cut their shortfall to 3.76%.

It all comes down to education in the end

Thus, when it comes to saving for Indonesia’s most-cited financial goals, it all comes down to education. In the tertiary education system there is no compelling reason why private institutions should not remain prevalent, but the foundation that they build on – i.e., primary and secondary public school education – are in apparent need of shoring up to both increase levels of enrollment and enhance takeaways. Similarly, when it comes to investing to build a retirement portfolio, individuals need to be educated on the potential benefits of participating in the formal financial system in terms of opportunities to build and grow their financial resources.

Meeting financial goals in Japan

Japan is an outlier in every sense of the current analysis, with two decades of virtual economic stagnation having distorted its domestic economic framework substantially. Japan’s economy has grown an average of just 0.9% per annum over the past 20 years\(^27\) and, despite two years of roaring stock market gains – the TOPIX gained a cumulative 63.7% during 2013 and 2014\(^28\) – under Abenomics, average inflation has been just 0.4% per annum over the past five years.

At the same time, Japan is home to the region’s most aged population, with a median age of 44.9 as of 2010 that is expected to rise to 53.4 in 2050. While its status as one of the richest economies in Asia has to date shielded Japan from many of the dire implications of its increasingly top-heavy population, supporting the highest level of government social spending in the region, an inflection point looms as its active labour force continues to shrink and its old age dependency ratio is projected to climb from 36 in 2010 to an astonishing 72 in 2050.

Amid these low-growth conditions, our analysis of the historical growth in the cost of Japanese investors’ key financial goals and returns on their self-reported asset allocation shows that they are actually earning returns in excess of cost growth. However, we caution readers that this is in large part due to a combination of the country’s history of rock-bottom inflation and likely unsustainable recent stock market returns buoyed by Abenomics.

Maintaining current lifestyle – treading water the top priority

Against this backdrop, Japanese investors’ most-cited financial concerns are all related to maintaining their current standard of living in one sense or another – maintaining current lifestyle led the pack at 23.5%, followed by saving for a rainy day at 21.0% and saving for retirement at 19.0%.

While Japan’s still relatively lofty per-capita GDP of $37,600\(^29\) at first seems a strong foundation from which to address these concerns, the devil is in the details. Indeed, the nation’s once robust household savings rate has fallen from a peak of 23.1% in 1975 into negative territory at -1.3% for 2014\(^30\). This implies that, despite two decades of minimal cost inflation, many Japanese families are finding it necessary to dip into their savings just to maintain their current standard of living.

---

27. 1994 - 2014; IMF World Economic Outlook Database, October 2014.
29. 2014F per-capita GDP based on purchasing power parity in current international dollars; IMF, World Economic Outlook Database, October 2014.
Retirement – challenges on the horizon

Like Hong Kong, the report *Funding the golden years* found that Japan enjoys “most favourable conditions” for retirement preparedness due to the nation’s high level of financial wealth, deep financial markets and comprehensive mandatory pension plan.

However, as we explored in the report *Expectations vs reality: Elderly labour force participation and retirement income security*, the elderly have traditionally extended their workforce participation to meet their retirement needs. But with Japan’s population of “old old” (i.e., those aged 80+) having grown to 28% of its elderly population from 15% in 1980\(^31\), an increasing proportion of its elderly population are finding themselves unable to continue to work.

Similarly, Japan’s relatively high level of social support is likely reaching a fiscal cliff of sorts. The Japanese government’s debt level is already 240% of GDP\(^32\) and social spending cuts are more likely than increases as the nation’s elderly population grows.

**Challenging, yes, but not impossible**

It is ironic that for individuals in Japan to make progress toward meeting their financial goals, the cost of these goals actually needs to rise. This is because a moderate level of price inflation correlates highly with economic growth and associated increases in individual prosperity.

To date Abenomics has significantly raised asset prices in Japan – equities in particular – lowered borrowing costs, boosted manufacturing by weakening the yen and lifted inflation to 1.8% for 2014\(^33\). This has been achieved via aggressive implementation of the first two so-called “arrows” of the program: bold monetary and fiscal policy easing.

However, it is widely believed that whether or not Abenomics delivers sustainable inflation and the associated economic growth that is necessary to help its population meet their financial goals depends on prompt implementation of the third arrow: structural reform. This would include deregulation of agriculture, promoting career opportunities for women and increasing labour market flexibility, among other things.

Many Japan watchers rate the chances of these reforms being implemented as very low, but even taking first steps in their direction could have a meaningful impact.

**Asset allocation under Abenomics**

As mentioned above, Japanese investors have theoretically seen returns on their self-reported asset allocation that exceed the growth in the cost of their key financial goals: 3.8% versus 1.1%, respectively, for a net gain of 2.7%.

As the chart below reveals, this net positive can potentially be augmented by shifting a portion of local- and foreign-currency cash holding – which amount to about 48.5% of total financial assets – to equities or even fixed income.

**Japan’s potential returns surplus if a percentage of current allocation to local currency switched to local equity or fixed income**

![Chart showing potential returns surplus](chart.png)

Note: EQ = Equities, FI = Fixed income. Returns quoted represent potential returns if these allocation shifts had been made on 1 January 2009 and remained static through 31 December 2014.

Source: Manulife Asset Management based on MIISI data and returns sources outlined in Appendix 2.

That being said, we caution investors that attractive investment returns in Japan over the past two years are likely unsustainable in the absence of strong government stimulus spending and that the long-term trend is likely to be toward less rather than more government spending. In this case, investors may want to consider diversifying their investments into overseas markets so that their returns are not so heavily influenced by public policy.

---

33. All items, less food (less alcoholic beverages) and energy. Statistics Japan. 2014
Meeting financial goals in Malaysia

Malaysian investors’ most-cited financial goal was to save for a rainy day at 30.2%. This was followed a distant second by maintaining current lifestyle at 16.8%, saving for retirement at 13.9% and saving for children’s higher education at 12.4%. Another financial goal worth noting for Malaysia is saving for known (ie, expected) healthcare expenses, which was cited as a leading goal by 8.5% of respondents.

Malaysia’s high savings rate and forecast economic growth rate of 5.0% per annum over the next five years should help households meet these goals. The nation has a relatively young population, with its working cohort currently accounting for about 67.5% of the population and a relatively low median age of 26.1 and old age dependency ratio of just 7 – forecast to rise to 39.8 (still lower than Japan’s current level) and 25 by 2050, respectively.

These factors – combined with the highest annual returns potential on current self-reported investment portfolios, at 5.1% – help investors in Malaysia face one of the lowest potential returns shortfalls in the region (excluding Japan). Potential investment returns based on current self-reported asset allocation fall 2.8% short of expected growth in the cost of the top-five financial goals on a pan-Asian basis.

Save for a rainy day – healthcare fears fray nerves

Combining the financial goals “saving for a rainy day” (which we consider a proxy for preparing for unexpected medical costs) and “saving for healthcare or medical expenses” (ie, known or expected healthcare costs), almost 50% of Malaysian investors ranked healthcare as one of their top five financial goals. As in Hong Kong, this seems strange in a country where all legal residents have benefited from publically provided and heavily subsidised healthcare.

Despite this comprehensive public system, our research reveals that out-of-pocket healthcare spending in Malaysia increased a daunting 11.9% per annum over the past five years. This is largely because, like Hong Kong, Malaysia finds itself at a crossroads of two systems providing healthcare services: the public and the private.

Source: Manulife Asset Management based on MISI data and returns sources outlined in Appendix 2.

34. IMF, World Economic Outlook Database, October 2014.
While the public healthcare system in Malaysia is known for providing high-quality care, it suffers from a shortage of resources. In a country with only 1.2 doctors per 1,000 residents versus the OECD average of more than 3, only about 40% of these doctors service the 75% of hospital beds in the country that are in the public healthcare system. This results in often long wait times in the public system and incentivises residents to turn to the private healthcare industry, where much higher user fees – which rose further on 1 April 2015, when private medical bills became subject to a 6% goods and services tax (GST) – buy access to the 60% of the nation’s doctors who service less than 25% of its available beds. This raises the potential for Malaysia’s healthcare services model to evolve in the direction that the Hong Kong government is mulling, with a hybrid of the public and private systems working together to cover the population. Some claim that this system is already evolving, as local governments have reportedly taken stakes in private hospital chains in recent years.

Retirement – government takes steps to boost retirement income security

Retirement ranked relatively low among Malaysian investor’s financial goals, coming in third – Japan rated it equally low and only China ranked it lower. We have examined the seemingly relaxed approach Malaysians take to retirement planning in previous reports, and have found that this attitude likely arises from a combination of expectations that children will help support retirees – which is far from certain as its culture evolves – the country’s historically low retirement age and generally low growth in the cost of retirement over the past five years, with inflation having averaged a relatively modest 2.4%.

That being said, the government is taking action as it realises that Malaysia’s population, while young in comparison to those of its North Asian peers, is aging rapidly and its current demographic dividend will not last forever. In 2013 Malaysia’s official retirement age was raised to 60 from 55, but the eligibility age for withdrawing Employee Provident Fund (EPF) benefits remained unchanged at 55. Similarly, the government launched a Private Retirement Scheme (PRS) in 2012 as a way to help residents enhance their retirement savings.

Asset allocation – cash cripples savings potential

Despite having relatively deep financial markets and access to overseas investments, Malaysian’s have the second highest self-reported allocation to cash among the countries and territories under consideration, at 44.0%. This represents a potentially significant hurdle to meeting investors’ top financial goals – our analysis of self-reported asset allocation reveals that relatively small changes to this allocation could significantly reduce the 2.8% potential returns shortfall that they face.

Indeed, if Malaysian investors were to reallocate 50% of their local-currency cash holdings to local equities their returns shortfall could virtually disappear, falling to less than 1%, and potentially further if these assets were allocated to foreign equity markets to take advantage of more opportunities for return while also diversifying holdings to lower risk exposure. For more conservative investors, shifting 50% of their cash holdings to a relatively low-risk portfolio of domestic bonds could lower their returns shortfall substantially to 1.85%.

Malaysia’s potential returns shortfall if a percentage of current allocation to local currency switched to local equity or fixed income

<table>
<thead>
<tr>
<th>Asset Allocation</th>
<th>Original</th>
<th>+10% EQ</th>
<th>+20% EQ</th>
<th>+50% EQ</th>
<th>+10% FI</th>
<th>+20% FI</th>
<th>+50% FI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-2.76%</td>
<td>-2.36%</td>
<td>-1.92%</td>
<td>-2.61%</td>
<td>-2.42%</td>
<td>-1.85%</td>
<td></td>
</tr>
</tbody>
</table>

Note: EQ = Equities, FI = Fixed income. Returns quoted represent potential returns if these allocation shifts had been made on 1 January 2009 and remained static through 31 December 2014.

Source: Manulife Asset Management based on Misi data and returns sources outlined in Appendix 2.

---

Meeting financial goals in the Philippines

Filipino investors, much like their peers in Malaysia, overwhelmingly reported medical expenses as a leading financial goal. “Saving for a rainy day” was the most frequently cited objective at 25%, saving for retirement came in at 14% and paying for children’s higher education at 12.5%. Of note, saving for known (ie, expected) healthcare costs figured prominently in the Philippines as it was identified as a leading goal by 18.5% of respondents.

Filipino investors are distinguished by the level of challenge that they face, with the cost of the top five financial goals expected to rise about 8.1% per annum based on the historical trend – second only to Indonesia. This is offset by the relatively high returns that Filipino investors stand to earn on their current self-reported asset allocation, at 4.6%, leaving them with a potential returns shortfall of 3.5% – just above the 3.3% average shortfall for all of the markets under consideration (ex-Japan) but below the 4.2% average for the developing markets under consideration (China, Indonesia, the Philippines, Malaysia).

Filipinos save for a rainy day

The Philippine government signed a universal healthcare (UHC) bill into law in June 2013. The bill aims to provide all of the nation’s 95 million residents with healthcare by the end of 2016, with an emphasis on meeting the needs of the underprivileged, elderly, disabled, women and children. The program launch was accompanied by the imposition of a “sin tax” that aims to provide funding via a levy on cigarette and alcohol sales.

This roll out puts the Philippines in a similar situation to many of its Asian peers, as the UHC program exists alongside a large and rapidly growing private healthcare system that is catering to the country’s middle and upper classes and foreign medical tourists. Essentially, the Philippines is evolving towards a hybrid public-private healthcare system. Indeed, despite the roll out of UHC, many Filipinos avoid the subsidised but thinly stretched public health system and instead patronise the nation’s private healthcare system – in the process exposing themselves to rapid cost growth to the tune of 11.9% per annum based on the past five years.

---

42. 2014F per-capita GDP based on purchasing power parity in current international dollars; IMF, World Economic Outlook Database, October 2014.
This represents a significant cost burden to consider when planning for one’s financial future, especially in a country with an estimated 1.1 doctors per 1,000 residents versus the OECD average of more than 3\(^{41}\), and composed of some 7,000 islands, which can greatly complicate access to basic healthcare facilities.

**Education – returns in excess of cost growth**

The Philippines remains relatively early in the development process, with per-capita income of $6,985\(^{42}\). However, it benefits from an attractive demographic profile – its working age population is actually forecast to grow from 61.0\% in 2015 to almost 67.0\% in 2050\(^{43}\) – a high level of English language ability and relatively robust GDP growth estimated at 6.0\% per annum over the coming five years\(^{44}\).

These ingredients combine to form a dynamic growth environment that has the potential to provide attractive job opportunities and associated income growth to those with the training and skills required. In addition, the Philippines has a long tradition of sending workers overseas, where specialised skills can be rewarded with higher wages than are available at home. Attaining the training needed for these jobs has fallen predominantly to the private education sector in the Philippines – 63\% of Filipino students enrolled in institutions of higher education attend private schools\(^{45}\).

Overall, however, investment in tertiary education seems attractive in the Philippines – while the cost of education has increased 8.2\% per annum over the past four years, the private and social rates of return on higher education in the country are estimated at 12\% and 11\%, respectively\(^{46}\).

**Asset allocation raises challenges – and opportunities**

As mentioned above, the aggregate cost of the top five financial goals in Asia is expected to rise 8.1\% per annum in the Philippines, implying that at least this level of returns is necessary on savings if investors are not to lose ground on their savings. This is tall order, and one that current self-reported asset allocation in the Philippines is doing little to meet. Indeed, Filipino investors report that they hold 42\% of their household assets in local and foreign currency and a lofty 24\% in investment property (excluding primary residence) – a relatively low 27\% of assets are reportedly exposed to capital markets.

As shown below, our scenario analysis reveals that a wholesale shift of 50\% of these cash holdings to a portfolio of local-market equities could move Filipino investors from a shortfall to a small surplus. While this may entail taking on a level of risk that some investors are uncomfortable with, shifting a similar amount to a more conservative local-bond portfolio could cut the shortfall by almost a percentage point to 2.71\%. Exploring investment opportunities in offshore markets could enhance the level of equity and fixed income returns that can be expected.

**The Philippines’ potential returns shortfall if a percentage of current allocation to local currency switched to local equity or fixed income**

<table>
<thead>
<tr>
<th></th>
<th>Original</th>
<th>+10% EQ</th>
<th>+20% EQ</th>
<th>+50% EQ</th>
<th>+10% FI</th>
<th>+20% FI</th>
<th>+50% FI</th>
</tr>
</thead>
<tbody>
<tr>
<td>EQ</td>
<td>-3.52%</td>
<td>-2.80%</td>
<td>-2.08%</td>
<td>-3.36%</td>
<td>-3.20%</td>
<td>-2.71%</td>
<td></td>
</tr>
<tr>
<td>FI</td>
<td>-2.80%</td>
<td>-2.08%</td>
<td>-3.36%</td>
<td>-3.20%</td>
<td>-2.71%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: EQ = Equities, FI = Fixed income. Returns quoted represent potential returns if these allocation shifts had been made on 1 January 2009 and remained static through 31 December 2014. Source: Manulife Asset Management based on MISI data and returns sources outlined in Appendix 2.

Indeed, Filipino investors could build more efficient investment portfolios by shifting a percentage of their cash holdings to potentially more lucrative equity and fixed income investments in the local and overseas markets. By mixing geographic exposure in particular, investors could enjoy the potential for higher returns while also moderating their levels of risk.

---

44. IMF World Economic Outlook Database, October 2014.
Meeting financial goals in Singapore

Singapore is one of Asia’s most rapidly aging economies. Its median age is forecast to rise from 37.3 in 2010 to 50.0 in 2050 while its old age dependency ratio is concurrently forecast to rise from 12 to 49. Against this backdrop, 26.5% of Singaporean respondents identified retirement as a leading financial goal, 17.0% saving for a rainy day and a virtually even 11.5% and 11.0% children’s higher education and saving to purchase a home, respectively. Another financial goal of note for Singaporeans is saving for known (ie, expected) healthcare costs, which was cited as a leading objective by 11.0% of respondents.

In saving to meet these financial objectives, Singaporean investors benefit from being among the richest in Asia, with per-capita GDP of $81,345. They also benefit from high savings rates, deep financial markets that are highly integrated with the global financial system and coverage by the Central Provident Fund (CPF), a mandatory pension scheme with a high coverage ratio that also makes allowance for supporting education and housing spending.

Education enhances returns in knowledge economy

Singapore’s rapid economic development over the past 50 years has seen it emerge as a bright light in Asia’s knowledge-based economy, with the service sector – including financial and legal services – accounting for about 71% of its economy compared to 29% for agriculture. With this level of focus on the knowledge economy, it comes as no surprise that 51.1% of Singaporeans had a university education in 2013 versus the OECD average of 32%. Nor is it surprising to learn that these graduates earn more – it is estimated that in 2004 an extra year of schooling enhanced a worker’s earnings by 13.7%.

With such potentially lucrative returns on education in Singapore, tertiary education has become a big business. In 2011 it was estimated that 64% of all higher education enrolment in Singapore was in private institutions, with the cost showing a steep growth curve of about 12.3% per annum over the past four years.

Source: Manulife Asset Management based on MSI data and returns sources outlined in Appendix 2.
Purchasing a home

The cost – and often scarcity – of housing is frequently debated across Asia, and Singapore is no exception. Approximately 90.3% of Singapore residents own their own home\(^5\), with 82% living in flats organised by the public Housing and Development board, an organisation set up in 1960 to address the nation’s housing shortage and which has since been a strong advocate for home ownership\(^5\).

This high level of ownership comes despite the fact that Singapore is one of the most expensive places in the world to buy a home, with low interest rates having driven home prices up an average of 4.6% per annum over the past five years even as the government imposed a raft of property market cooling measures. That being said, some market watchers now speculate that Singapore may be facing a period of housing price declines as supply continues to rise while demand seems to have paused as investors watch the global economy closely for signs of what direction economic winds are blowing.

CPF supports both education and housing purchases

One factor that plays a significant role in helping Singaporeans cope with the rising cost of education, housing and even healthcare – out-of-pocket medical expenses having risen an average of 7.3% per annum over the past five years – is the fact that the CPF scheme allows a portion of accrued funds to be diverted for these purposes. However, with retirement remaining the most-cited financial goal for surveyed investors in Singapore, we caution that individuals should carefully weigh the benefits and costs of potentially hollowing out their retirement income security to finance investments in other areas.

Asset allocation – keeping up with rising costs

Our estimates show that Singaporean investors face a potential annual returns shortfall of 3.6% when it comes to matching the level of growth in the cost of their financial goals. The 33% of assets that investors report are allocated to local-currency deposits certainly does not help, having returned an average of just 0.5% per annum over the past five years (not reflecting the impact of inflation). However, our scenario analysis reveals that even if 50% of investors’ local-currency cash holding were to be shifted to domestic equities or bonds, their potential shortfall would remain 2.69% and 3.08%, respectively.

Thus, we feel that it is important for Singaporean investors to take advantage of their economy’s strong ties to the rest of Asia and the world and to diversify their current cash holdings into multi-asset portfolios that mix exposure to the Singapore market and other global markets with the potential to deliver attractive returns.

Singapore’s potential returns shortfall if a percentage of current allocation to local currency switched to local equity or fixed income

Note: EQ = Equities, FI = Fixed income. Returns quoted represent potential returns if these allocation shifts had been made on 1 January 2009 and remained static through 31 December 2014.

Source: Manulife Asset Management based on MISI data and returns sources outlined in Appendix 2.

---

Meeting financial goals in Taiwan

Taiwanese investors were in line with their Asian peers in terms of their top five financial goals. Retirement was by far the leading objective, cited by 28.1% of respondents, followed a distant second and third by maintaining current lifestyle at 16.1% and purchasing a home at 15.1%.

Taiwanese investors appear to be well ahead of the game in terms of both the challenge they face, with the cost of their financial goals expected to rise about 3.0% per annum – the lowest among the countries and territories under consideration (ex-Japan) – and their potential returns shortfall, which is a mere 0.3% based on current self-reported asset allocation.

This relatively positive situation does not rise so much from lower cash holdings than their peers – at 37.4% they are in line with the average for the region – but from the fact that the highest percentage of their self-reported assets are currently exposed to financial markets. Indeed, 54.5% of Taiwanese investors’ household assets are reportedly invested in either equities, fixed income, mutual funds (the highest rate in the region save Japan), ETFs or investment-linked insurance. This represents a potentially substantial advantage over many of their peers in Asia, as is reflected by the minimal potential returns shortfall they face.

Retirement – most favourable conditions

Like several of its more developed peers in Asia, our Funding the golden years report found that Taiwanese investors face “most favourable conditions” for retirement preparedness relative to their peers in Asia. Taiwanese investors benefit from high levels of financial wealth, with per-capita GDP of $43,60056 – although our calculations reveal that they are actually the region’s richest by far based on their financial wealth to income ratio of 4.7x57 – deep financial markets, a globally integrated economy and high net pension wealth. This combines with generally low inflation of just 1.3% per annum over the past five years to paint a rosy picture.

However, challenges still linger for Taiwanese investors preparing for retirement. Taiwan’s population is aging rapidly, with its old age dependency ratio forecast to rise to 66.9 in 2049 from 36.0 in 201058, its savings rate has fallen precipitously and its elderly continue to retire relatively early, with its elderly labour force participation rate the second lowest among the countries and territories under consideration at a mere 8.1%59.

---

56. 2014F per-capita GDP based on purchasing power parity in current international dollars; IMF, World Economic Outlook Database, October 2014.
A house to call home

Taiwanese investors face a more daunting challenge when it comes to purchasing a home, as the cost of real estate has risen an average of 5.9% per annum over the past five years. Like Singapore, Taiwan has one of the world’s highest home ownership rates at about 87%. Also like Singapore, this high level has been at least in part policy driven, as homeowners have historically enjoyed a relatively low cost of ownership based on low interest rates since the global financial crisis, a property tax rate of just 1.2%, a property tax assessment system that is based on assessed rather than market values and a mortgage subsidy program.

However, this may be changing as the government has already implemented measures to cool the market, including tripling the property tax rate on additional residences to 3.6% and tightening mortgage loan-to-value regulations. That being said, ultimately, also like in Singapore, it will be housing supply and demand that determines prices.

Asset allocation – the potential for more of a good thing

As discussed above, Taiwanese investors have the highest self-reported capital market exposure among the eight markets under consideration. We feel that this is a key determinant of the relatively low potential returns shortfall that they face when saving for their key financial objectives. However, our scenario analysis reveals that Taiwanese investors are potentially missing out on an opportunity to move from a minimal shortfall to a surplus situation.

Indeed, historical market returns show that by allocating 50% of their current local currency holdings to a portfolio of local-market equities could deliver surplus returns of almost 1.0% compared to the growth in the cost of their financial goals. Thus, by taking advantage of Taiwan’s open economy and adding international equities and bonds to their portfolios, this reallocation could potentially deliver returns significantly above the growth in the cost of financial goals, essentially making these goals easier to reach in a shorter timeframe.

Taiwan’s potential returns shortfall if a percentage of current allocation to local currency switched to local equity or fixed income

![Graph showing potential returns shortfall]

Note: EQ = Equities, FI = Fixed income. Returns quoted represent potential returns if these allocation shifts had been made on 1 January 2009 and remained static through 31 December 2014. Source: Manulife Asset Management based on MASI data and returns sources outlined in Appendix 2.

Conclusion

Despite the myriad of cultural, economic and political differences across the eight countries and territories examined in this report, previous publications in the Aging Asia series have highlighted several key similarities. In particular, we have revealed that while some countries in Southeast Asia are relatively young, populations across north and south Asia are aging rapidly and this raises significant challenges for retirement income security.

The current report reveals that the similarities go further. In fact, a proprietary survey indicates that investors across Asia share a remarkably similar set of key financial goals. While retirement is almost universally the most-cited objective, most subject markets also prioritise saving for a rainy day, saving for children’s higher education, maintaining current lifestyle and purchasing a home.

Our research reveals that saving to meet these financial goals is complicated by the same key factors that often complicate saving for retirement: rising costs (i.e., inflation) and excessive cash holdings. With the cost of the five leading financial objectives on a pan-Asia basis having risen an average of 6.0% per annum (4.4% including Japan), financial goals are moving targets. As a result, every dollar saved needs to grow at the same rate costs are rising if investors are to make significant progress towards their goals.

Unfortunately, we find that this is greatly complicated by the second challenge. With roughly 42% of self-reported assets across the subject countries and territories allocated to low-yielding local or foreign currency holdings, average returns have reached just 2.7% per annum over the past five years on a pan-Asia basis (3.1% including Japan) – leaving the average investor facing a potential investment returns shortfall of 3.3% per annum (1.3% including Japan).

Essentially this means that for every step forward that investors are taking towards meeting their financial goals, they are falling half a step back.

That being said, the outlook is not as bad as it may seem. We find that by shifting anywhere from 10% to 50% of self-reported local currency holdings to more efficient investments such as local-market equities or fixed income, investors in most markets can significantly reduce or even eliminate the potential returns shortfall they face.

In more-developed economies with relatively deep and globally integrated financial markets and relatively sophisticated investor populations this can include adding exposure to offshore equities and fixed income to complement existing local market exposures. Meanwhile, in developing economies it can be a matter of encouraging capital market participation in the first place.

Gaining exposure to more efficient investments can be achieved in many ways, with the option to shift cash holdings to individual equity or fixed income investments, mutual funds, exchange traded funds (ETFs) or investment-linked insurance products – all of which have the potential to deliver returns in excess of cash and help investors overcome the potential investment returns shortfalls that currently compromise their ability to meet their financial goals.
Appendix 1: About the Manulife Investor Sentiment Index in Asia

Manulife’s Investor Sentiment Index in Asia is a quarterly, proprietary survey measuring and tracking investors’ views across eight markets in the region on their attitudes towards key asset classes and related issues.

The Manulife ISI is based on 500 online interviews in each market of Hong Kong, China, Taiwan, Japan and Singapore; in Malaysia, Indonesia and the Philippines it is conducted face-to-face. Respondents are middle class to affluent investors, aged 25 years and above who are the primary decision maker of financial matters in the household and currently have investment products.

The Manulife ISI is a long-established research series in North America. The Manulife ISI has been measuring investor sentiment in Canada for the past 15 years, and extended this to its John Hancock operation in the US in 2011. Asset classes taken into Manulife ISI Asia calculations are stocks/equities, real estate (primary residence and other investment properties), mutual funds/unit trusts, fixed income investment and cash.

MISI findings quoted in this paper are the result of field research conducted between 30 May and 27 June 2014.
Appendix 2: Cost growth, investment returns and returns shortfall source data

**CPI data**
- National Bureau of Statistics of China
- Hong Kong Census and Statistics Department
- Bank Negara Indonesia, Statistics Indonesia
- Statistics Bureau of Japan
- Department of Statistics, Malaysia
- Bangko Sentral ng Pilipina
- Monetary Authority of Singapore
- National Statistics, Republic of China (Taiwan)

**Private healthcare cost data**
- World Health Organization Global Health Expenditure Database

**Education cost data**
- Hong Kong Census & Statistics Department. School fees as a portion of CPI. 2014.
- Indonesia: McKinsey Global Institute
- Statistics Japan. Family Income and Expenditure Survey. (Revised in 2015)
- Statistics Singapore Household Expenditure Survey, 2013
- National Statistics, Republic of China (Taiwan) Report on the Survey of Family Income and Expenditure in Taiwan Area as of 2013

**Residential property cost and returns data**
- China: eHomeday.com
- Hong Kong, Rating and Valuation Department
- Bank of Indonesia
- The Land Institute of Japan
- Malaysia Valuation & Property Services
- Philippines CBD residential price index
- Singapore Urban Redevelopment Authority
- Taiwan: Sinyi Real Estate Planning and Research

**Local-currency cash returns data**
- China: Household benchmark three-month savings rate, Bloomberg
- Hong Kong: Three-month deposit rates, Bloomberg
- Bank Indonesia weighted average interest rate across time, saving and demand deposits
- Bank of Japan weighted average interest rates for time, savings, and ordinary deposits
- Bank Negara Malaysia interbank borrowing rate
- Bangko Sentral ng Pilipina weighted average interest rate across time, saving and money market accounts
- Monetary Authority of Singapore (MAS): Average of three-, six- and 12-month fixed deposit interest rates
- Taiwan: Three-month deposit rates, International Bank of Taiwan

**Foreign currency cash returns data**
- China: BofA Merrill Lynch US dollar constant maturity three-month LIBOR (London Interbank Offered Rate)
- Hong Kong: BofA Merrill Lynch US dollar constant maturity three-month LIBOR
- Bank Indonesia foreign currency time deposit rates
- Japan: BofA Merrill Lynch US dollar constant maturity three-month LIBOR
- Malaysia: No foreign currency allocations reported
- Bangko Sentral ng Pilipina weighted average interest rate across time, saving and money market accounts
- Singapore: Three-month US-dollar SIBOR (Singapore Interbank Offered Rate)
- Taiwan: BofA Merrill Lynch US dollar constant maturity three-month LIBOR
Mutual fund returns data
- Lipper, weighted average return of all mutual funds domiciled in respective country or territory (local currency terms)

Insurance returns data
- Hong Kong: Lipper, weighted-average returns for a screen of all investment-linked plans (ILP) available for sale in HK but not in US, UK, Germany or France (to exclude cross-border funds). Assuming ILPs comprise 30% (data from OCI HK) of individual insurance outlay and traditional life insurance plans yield no returns, the returns are 30% of weighted-average returns to proxy return on insurance
- Indonesia: Morningstar, weighted-average returns for a screen of all investment-linked plans (ILP) assuming ILPs comprise 41% of total individual insurance outlay (as per AASI data) and traditional life insurance plans yield no return. Returns used are 41% of ILP weighted-average returns as a proxy to estimate return on insurance
- Malaysia: Lipper, weighted-average returns for a screen of all investment-linked plans (ILP) assuming ILPs comprise 30% of total individual insurance outlay (as per Life Insurance Association of Malaysia data) and traditional life insurance plans yield no returns. Returns used are 30% of ILP weighted-average returns as a proxy to estimate return on insurance
- Philippines: Lipper, weighted-average returns for a screen of all investment-linked plans (ILP) assuming ILPs comprise 20% of total individual insurance outlay and traditional life insurance plans yield no returns
- Singapore: Lipper weighted-average returns for a screen of all investment-linked plans (ILP) available for sale in Singapore. Assuming ILPs comprise 35% (data from MAS) of individual insurance outlay and traditional life insurance plans yield no returns the returns are 35% of ILP weighted-average returns to proxy return on insurance

Equity returns data
- MSCI China A Total Return (RMB), Bloomberg
- MSCI Hong Kong Total Return (HKD), Bloomberg
- MSCI Indonesia (IDR), Bloomberg
- MSCI Japan Total Return (JPY), Bloomberg
- FTSE Malaysia Total Return (MYR), Bloomberg
- FTSE Philippines Total Return (PHP), Bloomberg
- MSCI Singapore Total Return (SGD), Bloomberg
- MSCI Taiwan Total Return (NTD), Bloomberg

Fixed income returns data
- China Bond Aggregate Total Return Index, Lipper for Investment Management
- HSBC Hong Kong Dollar Overall Bond Total Return Index (HKD), Bloomberg
- Lipper Indonesia Bond IDR Index (IDR), Lipper for Investment Management
- Citi Japan World Global Bond Index Total Return, Bloomberg
- Lipper Malaysia Bond MYR index (MYR), Lipper for Investment Management
- Lipper Philippines Bond PHP index (PHP), Lipper for Investment Management
- SGX Singapore Fixed Income Total Return Index (SGD), Bloomberg
- Taiwan: Lipper Global Index - Taiwan Bonds (NTD), Lipper for Investment Management

ETF returns data
- Lipper weighted-average returns (local-currency terms)
Manulife Asset Management’s Aging Asia Research Series

Launched in June 2012, “Aging Asia” is Manulife Asset Management’s on-going research series examining the economic and financial implications of one of the most profound changes facing Asia today – the rapid aging of its populations. The series leverages insights from the company’s network of on-the-ground investment professionals in 10 countries and territories across the region. The findings and insights of the Aging Asia series are intended to help pension funds, employers, governments, financial institutions and individuals understand and embrace the repercussions of this trend.

The entire Aging Asia series of research reports and related resources can be accessed at: ManulifeAM.com/agingasia

Saving up: The changing shape of retirement funding in a greying ASEAN

This report highlights that, contrary to popular believe, even the relatively youthful ASEAN (Association of Southeast Asian Nations) region is aging rapidly. It examines the resulting challenges for the region’s varied formal pension systems, and suggests that solutions are likely to involve organised savings outside formally constituted pension systems.

Funding the golden years: The financial and economic factors shaping pension provision for Asia’s rapidly aging populations

This report leverages the expertise and extensive data analysis of our in-house team of global economists to introduce the Manulife Asset Management Retirement Preparedness Indicator. The indicator examines the underlying economic and financial conditions affecting individual countries’ abilities to cater financially for their increasingly aged populations.

Asset rich, income poor? Key components of retirement income security for aging Asia

This report explores the five key constituents of income from to assess the levels of retirement income security within the Asia’s wealthiest economies: Hong Kong, Japan, Singapore, South Korea and Taiwan. It reveals that household wealth and how efficiently it is mobilised to generate income is a critical component of retirement income security. The report also highlights the contributions of other income sources such as salary and wages, government social spending, pension benefits and familial support.

The Asian cash drag: Alternatives for a more diversified portfolio

This report reveals that in most Asian economies, bank deposits actually end up delivering negative real returns due to the effects of inflation, personal income taxes and credit risk. The report also introduces a variety of investment alternatives that offer the potential for capital appreciation or even the ability to generate recurring income that can enhance retirement income security.

Expectations vs reality: Elderly labour force participation and retirement income security

This companion piece to the Aging Asia research series examines salary and wages, and highlights the role elderly labour force participation plays in retirement income security across Asia.

Live Long and Prosper? Retirement and Longevity Risk

Against the backdrop of rapidly aging populations and increasing life expectancy, this report reveals that married couples in Asia do not fully appreciate the potential length of their retirements and thus are likely not saving enough. This exacerbates longevity risk, the risk of a retiree outliving his or her sources of income, and highlights the need for multi-asset and income-oriented solutions in this part of the world.

Big Spenders: The myth of lower consumption in the golden years

This companion piece to the Aging Asia research series examines elderly consumption patterns – expected and actual – in order to determine the retirement consumption levels retirees across Asian markets are likely to face and the implications for economies, businesses and individuals.
Global Offices

North America
Toronto
Manulife Asset Management Ltd
200 Bloor Street East
Toronto, Ontario, M4W 1E5
Canada
Phone: (1) 416 852 2204

Boston
Manulife Asset Management (US) LLC
197 Clarendon Street
Boston, MA 02117
United States
Phone: (1) 617 375 1500

Europe
London
Manulife Asset Management (Europe) Ltd
18 St Swithin’s Lane
London, EC4N 8AD
United Kingdom
Phone: (44) 20 7256 3500

Asia
Hong Kong
Manulife Asset Management (Asia) 47/F, The Lee Gardens 33 Hysan Avenue Causeway Bay, Hong Kong Phone: (852) 2910 2600

Indonesia
PT Manulife Asset Manajemen Indonesia 31/F Sampoerna Strategic Square South Tower, Jalan Sudirman Kav. 45-46 Jakarta 12930, Indonesia Phone: (62) 21 2555 7788

Japan
Manulife Asset Management (Japan) Ltd 15/F Marunouchi Trust Tower North Building 1-8-1 Marunouchi, Chiyoda-ku Tokyo, Japan 100-0005 Phone: (81) 3 6267 1940

Malaysia
Manulife Asset Management Services Bhd 16th Floor, Menara Manulife 6 Jalan Gelenggang, Damansara Heights 50490 Kuala Lumpur, Malaysia Phone: (60) 3 2719 9228

Singapore
Manulife Asset Management (Singapore) Pte. Ltd 51 Bras Basah Road #11-02 Manulife Centre Singapore 189554 Phone: (65) 6501 5411

Taiwan
Manulife Asset Management (Taiwan) Co., Ltd 9F, No.89, Sungren Road Taipei 11073 Taiwan, R.O.C. Phone: (886) 2 2757 5615

Thailand
Manulife Asset Management (Thailand) Co., Ltd 6/F Manulife Place 364/30 Sri Ayudhaya Road, Rajthepi Bangkok 10400, Thailand Phone: (66) 2246 7650

Vietnam
Manulife Asset Management (Vietnam) Co., Ltd 4/F Manulife Plaza, 75 Hoang Van Thai Tan Phu Ward, District 7 Hochiminh City, Vietnam Phone: (84) 8 5416 6777

Disclaimer
Manulife Asset Management is the asset management division of Manulife Financial. Manulife Asset Management's diversified group of companies and affiliates provide comprehensive asset management solutions for institutional investors, investment funds and individuals in key markets around the world. This investment expertise extends across a full range of asset classes including equity, fixed income and alternative investments such as oil & gas, real estate, timber, farmland, as well as asset allocation strategies. Manulife Asset Management has investment offices in the United States, Canada, the United Kingdom, Japan, Hong Kong, and throughout Asia. Additional information about Manulife Asset Management may be found at www.manulifeam.com. Manulife Asset Management, Manulife and the block design are trademarks of The Manufacturers Life Insurance Company and are used by it and its affiliates including Manulife Financial Corporation.

This material, intended for the exclusive use by the recipients who are allowable to receive this document under the applicable laws and regulations of the relevant jurisdictions, was produced by and the opinions expressed are those of Manulife Asset Management as of the date of writing and are subject to change. The information and/or analysis contained in this material have been compiled or arrived at from sources believed to be reliable but Manulife Asset Management does not make any representation as to their accuracy, correctness, usefulness or completeness and does not accept liability for any loss arising from the use hereof or the information and/or analysis contained herein. Information about the portfolio's holdings, asset allocation, or country diversification is historical and is not an indication of future portfolio composition, which will vary. Neither Manulife Asset Management or its affiliates, nor any of their directors, officers or employees shall assume any liability or responsibility for any direct or indirect loss or damage or any other consequence of any person acting or not acting in reliance on the information contained herein.

The information in this material may contain projections or other forward-looking statements regarding future events, targets, management discipline or other expectations, and is only as current as of the date indicated. There is no assurance that such events will occur, and may be significantly different than that shown here. The information in this material including statements concerning financial market trends, are based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. This material was prepared solely for informational purposes and does not constitute a recommendation, professional advice, an offer, solicitation or an invitation by or on behalf of Manulife Asset Management to any person to buy or sell any security. This material should not be viewed as a current or past recommendation or a solicitation of an offer to buy or sell any investment products or to adopt any investment strategy. Nothing in this material constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. Past performance is not an indication of future results.

Proprietary and Confidential Information – Please note that this material must not be wholly or partially reproduced, distributed, circulated, disseminated, published or disclosed, in any form and for any purpose, to any third party without prior approval from Manulife Asset Management.