Plan Your Retirement with PRS Funds

Retirement planning is one of the most important financial goals the average Malaysian will undertake in his/her lifetime, especially in light of a longer life expectancy, rising costs of living and mounting inflationary pressures.

Based on government statistics, most Malaysians do not have enough savings to retire comfortably, with 50% of retirees above the age of 55 exhausting their retirement income under the national provident fund within five years of retirement[1]. Hence, rather than relying on one source of income, it is crucial for the working age population to start their retirement plans as early as possible with diversified investments so as to provide stable and sufficient income streams to support them throughout their retirement years.

Retirement Objectives

Typically, investors looking to build their nest egg have three common investment objectives based on their age profiles, i.e.:

i. **Growth:** Young investors who are decades away from retirement have a longer investment horizon. This enables them to tolerate some fluctuations in their investments in order to achieve capital growth over the long run.

ii. **Income:** Investors nearing or in retirement will require regular and stable income to cover their daily expenditure after retirement, which could span from 10 to 30 years.

iii. **Preservation:** Retired investors generally place more emphasis on capital preservation as they have to rely on their savings after leaving the workforce. These investors tend to be conservative with very low risk tolerance.

PRS Funds as a Useful Tool for Retirement Planning

Private Retirement Scheme (PRS) funds offer one of the most effective and convenient ways to accumulate long-term savings for retirement. Under the voluntary long-term savings and investment scheme, PRS funds provide an additional savings option for investors to build their retirement nest egg within a regulated framework. Investors can also enjoy a personal tax relief of up to RM3,000 per annum on their PRS contribution.

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[1] *Employees Provident Fund (EPF) International Social Security Conference 2015*

Generally, a good retirement portfolio should be well-diversified across equities, fixed income securities and money market instruments, with the asset allocation depending on the investor’s age, risk tolerance, investment horizon as well as specific financial goals. Taking these into consideration, Public Mutual offers a wide range of PRS funds (see Table 1) to cater to the diversified needs of investors at different stages of their retirement planning.

Table 1. Public Mutual PRS Funds

<table>
<tr><td rowspan="5">Conventional Series</td><td rowspan="3">Core Funds</td><td>Public Mutual PRS Growth Fund (PRS-GRF)</td></tr>
<tr><td>Public Mutual PRS Moderate Fund (PRS-MDF)</td></tr>
<tr><td>Public Mutual PRS Conservative Fund (PRS-CVF)</td></tr>
<tr><td rowspan="2">Non-Core Funds</td><td>Public Mutual PRS Equity Fund (PRS-EQF)</td></tr>
<tr><td>Public Mutual PRS Strategic Equity Fund (PRS-SEQF)</td></tr>
<tr><td rowspan="4">Shariah-based Series</td><td rowspan="3">Core Funds</td><td>Public Mutual PRS Islamic Growth Fund (PRS-IGRF)</td></tr>
<tr><td>Public Mutual PRS Islamic Moderate Fund (PRS-IMDF)</td></tr>
<tr><td>Public Mutual PRS Islamic Conservative Fund (PRS-ICVF)</td></tr>
<tr><td>Non-Core Funds</td><td>Public Mutual PRS Islamic Strategic Equity Fund (PRS-ISEQF)</td></tr>
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i. Growth

Ideally, investors should start their retirement plans as soon as they enter the workforce as this will provide sufficient time for their investments to grow over the long term into a comfortable retirement pool.

To achieve long-term capital growth that could potentially outpace or keep up with inflation post-retirement, one of the viable options is to invest in equities. Typically, younger investors should allocate a higher proportion of their retirement investments to equities as they have ample time to ride through market cycles. They may opt for PRS Growth Fund (PRS-GRF) under the conventional series and/or PRS Islamic Growth Fund (PRS-IGRF) under the Shariah-based series – both are Public Mutual PRS core funds which may invest up to 70% of their net asset value (NAV) in equities.

For more aggressive investors who are able to withstand the ups and downs of stock markets in pursuit of potentially higher returns, they may consider investing in Public Mutual PRS non-core funds, namely PRS Equity Fund (PRS-EQF), PRS Strategic Equity Fund (PRS-SEQF) and PRS Islamic Strategic Equity Fund (PRS-ISEQF), which have higher equity exposures with 75% to 98% of their NAV invested in the equity markets.

ii. Growth + Income

Compared to young adults, middle-aged investors who are closer to retirement generally have lower risk tolerance. They may continue to seek returns which are in line with their risk profiles while requiring some level of income. Such investors may invest in PRS Moderate Fund (PRS-MDF) and PRS Islamic Moderate Fund (PRS-IMDF), which aim to provide income and capital growth over the medium to long-term period. To achieve this objective, PRS-MDF and PRS-IMDF adopt a balanced asset allocation approach, whereby 40% to 60% of the funds' NAV is invested in equities while the balance is invested in debt securities/sukuk and liquid assets.

Given a balanced portfolio mix of equities and bonds/sukuk, the overall portfolio risk of PRS-MDF and PRS-IMDF is reduced because the returns of equity and bond/sukuk investments are generally not positively correlated. Hence, PRS-MDF and PRS-IMDF are ideal for investors who are willing to tolerate moderate levels of risk in order to achieve modest long-term capital growth for their retirement.

iii. Income + Preservation

Retired and soon-to-retire investors are commonly risk-averse with preference for income and capital preservation. As these investors typically require a quantum of income on a regular basis, they generally have a higher allocation of their retirement investments in fixed income securities, which will generate stable semi-annual/annual income to investors via interest/coupon payments.

PRS Conservative Fund (PRS-CVF) and PRS Islamic Conservative Fund (PRS-ICVF) are lower-risk investments that suit the need of these investors, as both funds have the mandate to invest 60%-80% of their NAV in fixed income securities/sukuk, with at least 20% of their NAV invested in money market instruments.

Steps to Successful Retirement Planning

For most investors, selecting PRS funds that suit their specific retirement needs and goals is just the first step towards building long-term savings. Investors are advised to adopt the Ringgit Cost Averaging (RCA) strategy to build and accumulate savings over the long term. RCA involves buying a fixed Ringgit amount of unit trust investments on a regular basis via Direct Debit Instruction (DDI) or Regular Investment Instruction (RII) facilities. This disciplined approach allows investors to habitually save for the long term while helping them to ride through market fluctuations, as investors consistently accumulate units regardless of the market's highs and lows.

It is also imperative that investors revisit their retirement portfolios on a yearly basis, especially when their investment needs or financial circumstances change. Generally, investors become more conservative as they approach retirement age. This requires their retirement portfolios to be rebalanced to become less focused on capital growth and more focused on income and capital preservation. Investors can entrust their unit trust consultants (UTCs) with developing a portfolio rebalancing strategy that best suits their retirement needs.

All in all, PRS investments can go a long way towards helping investors achieve their retirement goals. With early and careful planning coupled with disciplined investing, investors will be well-positioned to build long-term wealth for a comfortable retirement.

You are advised to read and understand the contents of the Disclosure Document of Public Mutual Private Retirement Scheme – Conventional Series and Disclosure Document of Public Mutual Private Retirement Scheme – Shariah-Based Series dated 26 May 2017; and the relevant fund's Product Highlights Sheet (PHS) before contributing. These Disclosure Documents have been registered with the Securities Commission Malaysia who takes no responsibility for their contents, and neither should their registration be interpreted to mean that the Securities Commission Malaysia recommends the Scheme or the fund(s) under the Scheme.

You should note that there are fees, charges and risks involved in contributing to PRS funds; and that the prices of units and distribution payable, if any, may go down as well as up. Please refer to the Disclosure Documents and PHS for information pertaining to the above. Past performance of a PRS fund is not an indication of its future performance. Applications to contribute must come in the form of a duly completed PPA account opening form (for the first time) and new fund application form referred to in and accompanying the Disclosure Documents. A copy of the Disclosure Document and PHS can be obtained from your attending PRS consultant, nearest Public Mutual Branch/Customer Service Centre or Public Bank branch.