Covid-19 slams retirement adequacy, especially in hard-hit sectors

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THE 2020 Mercer CFA Institute study on retirement systems worldwide concluded that most of us will be left with reduced retirement benefits in our advanced years. Retirement adequacy may be compromised by the current global pandemic which has sent the global economy into a recession.

Covid-19 has shown no signs of abating despite initial lockdowns which successfully tamed the rate of increase in infections. Government missteps and behavioural fatigue have been blamed for the second wave in Europe, and it is not a pretty sight going into the winter months in the northern hemisphere.

With the population huddled together in enclosed environments, we may have to contend with another increase in infection rates if fresh government measures fall short. With that, the economies take yet another unavoidable blow to in a bid to stem rising infections.

Vaccine hopes

Short of a vaccine, the economic downturn affecting so many economies will likely drag on. When vaccines become available (hopefully in December 2020), delivering them to 7.8 billion people is going to be a herculean task that will take many months; some predict even years to reach every individual.

Many countries and politicians are jockeying for priority in securing vaccines. Other pertinent questions include how we are going to price the vaccine. This may depend on who has funded the development, international cooperation, and political pressure. And do we take a leaf out of the economics playbook, as the vaccine is considered a global public good?

The Mercer CFA Institute study, which examined 39 retirement income systems and covered almost two-thirds of the world's population, puts forth four factors that will reduce worldwide retirements benefits: lower contributions to retirement schemes; lower investment returns; less future government support; and earlier access to retirement benefits.

In the next few months, we will explore issues flagged by the 2020 report, with a particular focus on Singapore and the ongoing Covid-19 pandemic. We kick off the series of articles with a pre-pandemic scenario.

Pre-pandemic

In October and November 2019, retail investors in 15 markets were asked various questions in a CFA Institute's 2020 global trust survey. One hundred investors over the age of 25 with at least US$100,000 and above in investible assets in Singapore were asked: "Do you trust your investment will provide enough wealth that you will not need to work past your desired retirement age?". Only 45 per cent replied "yes" in Singapore, versus the global average of 69 per cent. The only other country with a lower reading was Japan at 40 per cent.

Job losses reduce workers' contributions to pensions

We are not optimistic that the dark blue bars in the diagram (right) would hold amid the pandemic. Higher unemployment, employees on furloughed schemes, shorter work weeks and lesser gig work brought on by the global pandemic will affect retirement nest eggs.

The black swan event hit many sectors hard, particularly related to tourism, such as airlines, hospitality, tourist attractions. It also left nightlife, bars, food and beverage (F&B) outlets bereft of permits to reopen, even as they grapple with lockdowns and reduced capacity due to social distancing rules or reduced operating hours. In these adversely impacted sectors, there will be a reduction in the level of contribution into public or private pension arrangements.

Nevertheless, there is a disproportionate impact on certain groups of workers. The travel-related sector has retrenched workers; airlines, hospitality, tourism-related F&B workers have been badly hit due to closed international borders. These workers' contributions into pension arrangements would be hit as work has dried up.

Anecdotal evidence has also highlighted the disproportionate impact on the lower socio-economic segments of the population, women, and gig workers. Blue-collar workers are often required to be on-site to get the job done. With lockdowns and the nature of work, they are unable to continue working in contrast to white-collar workers who are likely to be able to work from home.

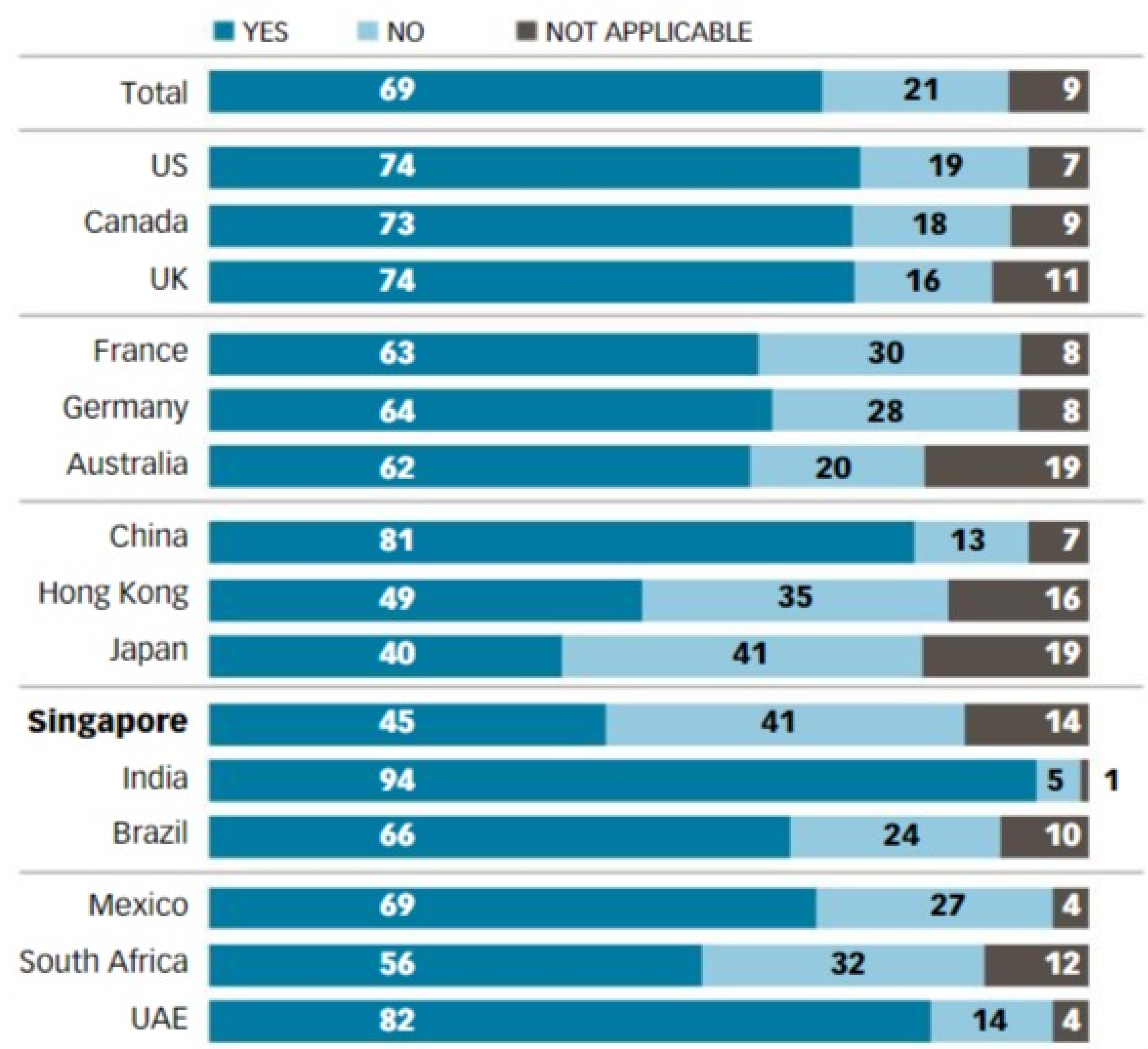
Men and women tend to cluster in different occupations in both developed and developing economies. With Covid-19, the badly affected sectors tend to have higher proportions of women on the payroll – hence the disproportionate adverse effect on women's income and contribution to pension arrangements.

It is widely reported that gig workers are badly affected vis-à-vis their salaried counterparts. The effect on gig workers is immediate. With lockdowns, furloughs or heightened uncertainty, clients pull the hand brake. Jobs evaporate overnight. In Singapore, one can get a sense of the loss in income through the *I lost my gig* Web page.

The other group which continues to be hobbled by unemployment is the youth. Even before the pandemic, youth unemployment remained higher than the general unemployment rate in many countries. With the pandemic, young people are at serious risk of being relegated to being a lost generation.

Blow to savings

Confidence in wealth throughout retirement (%)



Source: CFA Institute Earning Investors' Trust 2020

Blow cushioned in Singapore

The Singapore resident unemployment rate rose to 4.5 per cent in August 2020, up from 4.1 per cent in the previous month. The blow to trade-dependent Singapore was cushioned by four Budgets this year to prevent the economy from deep contraction. Part of the S$100 billion budget was to prevent local job losses through the government's Jobs Support Scheme (JSS).

In August, Deputy Prime Minister and Finance Minister Heng Swee Keat announced a further S$8 billion to save jobs. The extended JSS will cover wages paid up to March 2021 for firms in the sectors that were hit hardest.

Subsidies do not last forever

Mr Heng said the government has used 20 years of past government budget surpluses to combat Covid-19. Funding salaries at this scale is unprecedented, and comes with a huge price tag. This obviously cannot continue indefinitely. If the global economy continues to face challenging times in 2021, job losses are to be expected in Singapore.

Can Singapore pivot quickly enough to growth areas?

The Singapore government has identified new growth areas in the current pandemic. Retrenched workers need to reskill to pivot to growth areas to secure their livelihood. Through various schemes such as SGUnited Jobs and Skills Package, the government is supporting locals to take up employment opportunities in challenging times. Are Singaporeans grabbing these opportunities?

Some are. As the Cantonese proverb goes, if the horse drops dead, one has to soldier on on their own two feet. Re-employment means income at the end of the month – albeit at a lower wage rate for some – and continued contribution to pension schemes such as Central Provident Fund (CPF).

But some who have lost their jobs have not taken up new positions. Digital platform *AsiaOne* reported: "Despite the National Jobs Council creating 117,500 jobs and training and attachment opportunities as of end-August, only 33,100 positions, or 28.17 per cent, were taken by local job seekers. Even more sobering, only 6,650, or 15.2 per cent, of 43,750 openings for long-term jobs for professionals, managers, executives and technicians were taken by locals.

"Why are these jobs going begging when retrenchments are rising because of Covid-19? From April to June, layoffs more than doubled to 8,130 compared with the first quarter. The answer lies mainly in job matching or, to be more precise, a mismatch of expectations between job seeker and potential employer".

Reduced contributions to pension schemes

Unemployment reduces contributions to pension schemes such as CPF in Singapore. The longer one stays unemployed, the lesser the contribution. We view unemployment as probably the biggest contributor to retirement adequacy compared to the other three factors put forth by the Mercer CFA Institute study.

Those who hold out for so-called "better" jobs may find their prayers answered. All else being equal, they should be able to tide over the hiccup in retirement accumulation. For others, holding out for the ideal job may lead to a dead end; and some may end up leaving the labour force – this will definitely not help retirement adequacy.

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