Wealth

Cover Story: Reverse annuity scheme for seniors with critical illness

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Many Malaysians are not saving enough for their retirement. What if they are diagnosed with a critical illness, such as cancer, and they do not have medical insurance? Such an unfortunate situation may be more common than some may think.

Based on data provided by Kalsis Services Sdn Bhd, only 4% of Employees Provident Fund (EPF) contributors can afford to retire, while almost one-third of the nation's seniors are diagnosed with cancer each year.

Moreover, cancer cases are expected to double to 43,000 annually by 2040. This would not be a big issue if seniors have medical insurance, but this isn't the case with many people. Kalsis data shows that 80% of those aged 60 to 69 years old are uninsured. The rate goes up to 91.3% for those 70 years old and above.

"You can see from the EPF data that only a small number of them can afford to retire. Imagine those who work in the gig economy without insurance and retirement savings. Combine this with almost every one in three seniors being diagnosed with cancer annually, it is something quite shocking," says Jonathan Teoh, founder and CEO of Kalsis, in an interview with Wealth.

It is based on this finding that he launched Kalsis, in partnership with Kenanga Investors Bhd (KIB), to let seniors diagnosed with cancer have an alternative way to fund their medical expenses with the property they own.

The firm is in the process of establishing more partnerships with other industry players to educate seniors on its solution. "We are going to work very closely with Thomson hospitals to implement a patient support programme," says Teoh.

He is also the founder of An Living, a Singapore-based company that aims to create financial solutions for the ageing population by monetising their properties.

However, not all seniors are eligible. Among the criteria, one must be either a Malaysian, a permanent resident or a participant of the Malaysia My Second Home (MM2H) programme. The applicant and the spouse need to be 65 years old and above and have the requisite legal capacity to sell the home.

The applicant has to be a cancer patient. And if two seniors who are married own the home, one of them must be undergoing treatment for cancer.

As for the property, one of the key criteria is that it has to be freehold, landed and located in the Klang Valley, with certain postcodes excluded. It has to be occupied by the owner as the primary place of residence and free from all encumbrances, such as mortgage and other financial liabilities.

A 2021 study on private health insurance coverage in Malaysia found seniors were likely to be uninsured

AGE GROUP (YEARS)	SURVEY COUNT	ESTIMATED POPULATION	UNINSURED (%)	WITH PHI (%)	ESHI (%)
18– 70+	19,959	20,238,623	56.60	26.80	16.60
60– 69	2,360	1,635,800	80	14.70	5.30
> 70	1,434	975,851	91.30	6.70	0.20

Note:
1. PHI means private health insurance
2. ESHI means employer sponsored health insurance
3. Both tables are provided by Kalsis

Less than 4% of EPF contributors can afford retirement

EPF CONTRIBUTOR GROUPINGS BY ETHNICITY	NO OF EPF CONTRIBUTORS	MEDIAN SAVINGS (RM)
Bumiputera	9,520,000	4,900
Chinese	4,290,000	45,200
Indian	1,300,000	14,900

SOURCE: EPF, CODEBLUE, C/CAN GREATER PETALING, MALAYSIA STUDY ON CANCER SURVIVAL 2018, NATIONAL CANCER INSTITUTE, MINISTRY OF HEALTH, PRIVATE HEALTH INSURANCE IN MALAYSIA: WHO IS LEFT BEHIND (NUR ZUHAIRAH BALQIS- ALI)

Reverse annuity scheme for seniors

Teoh terms the firm’s solution as a reverse annuity scheme. How does it work from the perspective of the applicant?

Let’s say there is a senior named Sabrina, a cancer patient who urgently needs RM150,000 for treatment. She and her husband can consider Kalsis to fund the treatment or preserve their retirement savings.

Kalsis would hire a valuer to determine the market value of the property and provide a copy of the valuation report to Sabrina and her husband. Once agreed, they can live in their home until they both pass on, during which they will receive complimentary services provided by the firm. These services include basic home repairs, pest control, provision of selected fire safety devices, home insurance for house structure and full coverage for quit rent and assessment charges.

In the first year of the scheme, Sabrina would receive cash equivalent to 10% of the value of the property. Assuming that it is valued at RM1.5 million, RM150,000 would be credited into her bank account.

From the second year onwards, she would receive cash equivalent to 4% of the property, either in a lump sum payment or monthly instalments. The former would mean upfront cash of RM60,000 while the latter translates into RM5,000 a month.

Teoh says the payments will continue to be made to her husband when Sabrina is no longer around and cease when her husband also passes, which is when the scheme expires. The property will then be put up for sale.

Wouldn’t the seniors suffer a loss if they were to pass on early? Teoh says Sabrina and her husband have the right to nominate a person to receive the “apportioned proceeds” when the home is sold by Kalsis.

When the proceeds of the sale is more than the entry value, which is RM1.5 million in this case, the nominee would receive cash equivalent to 72% of the property's entry value. The rate decreases as time passes by. In the fifth year, the nominee would receive 63% of the entry value and in the 10th year, 40%.

(KALSIS adjusted the 10th year apportioned proceed rate to 5% from 40% after the story was published in the printed version of Wealth on Sept 23. The revision was due to "additional costs for the benefit and interests of the participants", according to Teoh.)

After 10 years, the nominee will not receive the apportioned proceeds as the firm and its investors are deemed to start assuming longevity risk, says Teoh. To put it simply, it means the seniors are deemed to have lived longer than the firm's pricing assumptions.

On the flip side, if the proceeds from the sale of the property are less than the entry value, the apportioned proceeds will be a portion of the actual sale proceeds, the details of which are not specified in the product brochure.

Overall structure of the scheme

Looking from the top, Kalsis is in charge of reaching out to potential customers, screening applicants, inspecting the property and providing maintenance and customer support. A special purpose vehicle (SPV) and trustee, which is Kenanga Trustee Bhd (KTB), are also involved in the process.

The SPV acts as a fundraising entity that issues shares to investors who provide capital for the acquisition of properties from qualified seniors. The properties acquired, or their titles, are held under KTB.

SAM FONG/THE EDGE

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> Kalsis' Teoh

"We buy the title to the house, but the seniors get to use 100% of the space. Hence, we can't sell the property as the seniors are still living there. It also can't be rented out. This is why we cannot pay them 100% of the home value," Teoh explains.

The title to the house held under KTB would be returned to the seniors if a "company termination event" were to happen, such as if the company becomes insolvent. The same would happen if investors failed to make payments to the seniors.

"Without exception, if an event like this happens, such as a buyer failing to make payments, the title will be automatically transferred back to the seller. And they get to keep all the money paid to them until that day, which becomes something like a windfall," he says.

KIB is the investment manager of Kalsis, providing capital for the scheme and managing the cash that resides with the company. Part of the capital comes from sophisticated investors who invest with KIB through its non-discretionary investment services. An oversight committee is established between Kalsis and KIB for the SPV to monitor the acquisition and disposal of properties.

Teoh says that before the property is sold, the nominee is granted access to the home for retrieval of sentimental items. "After the couple have passed away, we will reach out to their nominee to ask, 'Do you want to go in to retrieve any of the items for sentimental purposes?' Then we will proceed to sell the home on the open market."

Similar to viager transactions in France

Teoh says this financing solution traces its roots back to the viager transactions done in France. Also known as reverse annuity mortgages or charitable remainder trusts, such schemes have been around for a long time.

The viager transaction is undertaken on the basis of willing buyer, willing seller. The buyer tends to be a middle-aged person looking for a place for retirement but does not need it immediately. The seller is a senior who has a nice space to live in, but needs extra cash for living expenses. So, the two parties sign a contract with the help of a lawyer in which the buyer promises to make a down payment and regular annuities for life until the seller passes away. The title to the home goes to the buyer upon the seller's death.

In modern days, similar concepts have been introduced in some countries to help seniors live a better life. In Singapore, people who bought and live in public housing, known as Housing & Development Board flats, can participate in the lease buyback scheme offered by HDB.

According to its official website, eligible HDB home owners can sell the tail-end lease of their properties and receive a bonus of up to S$30,000. In general, part of the money they receive has to be used to top up their retirement account at the Central Provident Fund (CPF), the equivalent of EPF in Malaysia. They could potentially receive up to S$100,000 in cash after meeting the CPF top-up requirement.

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> KIB's De Alwis

According to Teoh, about 1,800 HDB flat owners have opted for the lease buyback scheme each year over the past decade.

Datuk Ismitz Matthew De Alwis, CEO and executive director of KIB, says the reverse annuity scheme is an alternative and practical way for people reaching the “decumulation” stage in life. They are mostly seniors looking to liquidate the assets they accumulated over the years to retire more comfortably.

He came across An Living and met Teoh in recent years. It took them more than 1½ years of engagement and discussions to finally launch Kalsis in Malaysia.

“Many old folks don’t want to move out of their house. Their children aren’t returning from overseas. It is not uncommon in areas like Petaling Jaya, Subang Jaya and Bandar Utama. You see many people like this,” says De Alwis, adding that Kalsis could be of great help to these seniors in times of need.

The duo are confident that the reverse annuity scheme can take off locally, but they also try to avoid doing too many things at one go. That is why they decided to look at the most pressing needs of Malaysian seniors which, in this case, is cancer and heart attacks.

“We decided to focus on this group of seniors. We try to make it relevant and easier to understand for the people. This would help encourage new investors to come on board too. Of course, eventually, once the scheme gets going and gains traction, we can then consider more options,” says De Alwis.

Teoh says today, the viager industry in France has grown by leaps and bounds from hundreds of years ago. According to him, 5,500 viager-related transactions occur annually in that country, with the average transaction value at €270,000. The average age of property sellers in viager transactions is 74.3 years old.

He adds that the ratio of retail to institutional investors stands at 93:7. The investment returns are 6.6% on average while the investment duration is 14.7 years on average. For comparison, the 10-year and 15-year French government bond yields were about 3% and 3.23% respectively in June this year.

The views of financial planners

Financial planners who spoke to Wealth agree that Kalsis Services Sdn Bhd's reverse annuity scheme is an innovative product for a very specific group of people that provides them with certain advantages.

For instance, the seniors who receive cash for cancer treatment can continue to live in their home to recuperate, instead of moving to a new place and a new environment. Their property maintenance cost is also absorbed by the scheme provider, which leaves them with less to worry about.

However, there are things that the seniors should take into consideration. Kenny Suen, chief marketing officer at Bill Morrisons Wealth Management Group, says his main concern would be the cost of the scheme, including the cost of services the firm provides to the scheme participants and the investment returns the investors/funders expect to earn.

He points out that Cagamas Bhd or the National Mortgage Corporation of Malaysia launched its reverse mortgage solution earlier, which is similar to Kalsis' solution. The main difference is that the former comes in the form of a loan while the latter is home equity.

To Suen, both solutions are underpinned by a mathematical calculation that derives the cost of providing such a solution and the anticipated returns investors expect to receive over a specific period.

"It is certain that they have a break-even cost for them to take on such a risk. And it is funded by investors, who are looking for a certain yield [for providing the funds]. What is the yield?"

Based on his knowledge, the cost of a reverse mortgage in Australia is 9.75% per annum while in New Zealand, it is about 10.5%. The cost of funding is surely higher than banks' financing as these funds are provided by private entities with a smaller pool of funds to lend out.

Hence, Suen says it is important that the solution provider be transparent with the scheme participants about the cost, including the cost of funding.

Another thing he would look out for is the speed of disbursement, as he assumes the firm would not disburse the initial sum to the scheme participants immediately before the property title is transferred. The transfer process could take two to three months. But what if the patient needs money urgently?

"It is certain that they have a breakeven cost for them to take on such a risk. And it is funded by investors, who definitely are looking for a certain yield for providing the funds. What is the yield?"

> Bill Morrisons' Suen

Regulation is another point of concern as there is currently no authority in charge of overseeing such a scheme, says Suen. If the agreement is based on the contract signed by the seller and buyer, the scheme participant will need to have a good grasp of the contract.

Bryan Zeng, CEO of FA Advisory Sdn Bhd, acknowledges the benefit of the scheme but points out that one should weigh it against other available options.

Resonating with Suen's view, he says the scheme participants should be aware of the cost of funding. It is certain that they won't be able to maximise the full value of their property, compared to them selling their property on the secondary market.

What if a person can plan ahead and sell a RM1.5 million property in advance? He can earn RM45,000 a year just by pledging the money as fixed deposit in a bank at 3% return per annum. They can then rent a smaller place in the suburbs with a lower cost of living, says Zeng. "If you are able to plan early and prepare for the future, that would be the best," he adds.

However, all these should be well planned and require active management of one's wealth and property. A senior who is experiencing a decline in health and cognitive ability might not be able to do so.

Kimberly Law, co-founder and executive director of Uno Advisers, says one might want to look more carefully at the terms of the scheme and calculate how much value one can extract from selling the property through the scheme.

Kalsis pays 10% of the value of the property in cash to its scheme participants and 4% in each subsequent year. Based on such a schedule, one would need to live up to more than 23 years to receive the amount of money equivalent to the initial selling price of the property, she says.

"The scheme seems to be more worth it if one were to live less than 10 years, so that the nominee is entitled to the "apportioned proceeds" (see "Reverse annuity scheme for seniors with critical

Uno Advisers' Law says one might want to look more carefully at the terms of the scheme and calculate how much value one can extract from selling the property through the scheme

illness”). It is not worth it if you live more than 10 years [and less than 23 years] as your next of kin would not get the apportioned proceeds,” she adds.