



**City University of Hong Kong
Department of Economics and Finance
“MPF and Retirement Protection”**

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MPF as the Second Pillar

0

Non-contributory, publicly financed and managed system

1

Mandatory, contributory and publicly managed system

2

Mandatory, privately managed, fully funded contribution system

3

Voluntary savings

4

Informal support, other formal social programmes and other individual assets



Hong Kong's Multi-pillar Retirement Protection System

Pillar	World Bank	Retirement Protection in Hong Kong
0	Non-contributory, publicly financed and managed system	CSSA; OALA; OAA
1	Mandatory, contributory and publicly managed system	Nil
2	Mandatory, privately managed, fully funded contribution system	MPF; ORSO; Civil service pensions schemes
3	Voluntary savings	Voluntary contributions to MPF; Retirement savings-related insurance
4	Informal support, other formal social programmes, and other individual assets	Public housing; Public healthcare; Residential and community care services; Elderly health care vouchers; public transport fare concession; family support; Self-owned properties



Features of MPF

- Privately managed
- Managed under trust
- Pooling small contributions for portfolio diversification
- Fully funded, financially sustainable
- Decentralized





“Sins of MPF”

- Fees too high
- Returns too low
- Insufficient for retirement
- “Enriches fund managers”
- “Better off buying Tracker Fund”
- Leakage resulting from offsets



Fees Too High (I)

- Two components:
 - fund management
 - administrative
- Massive piece of social engineering
 - Number of MPF accounts
 - 9.3 million
 - Number of enrolments
 - 280 000 employers
 - 2 580 000 employees
 - 203 000 self-employed persons



Fees Too High (II)

- Paper work and more paperwork
- Small, irregular monthly sums
- Low contribution (5% + 5%)
- Lots of industry participants (14 active trustees)



Solutions to High Fees

- Fees falling: 2.1% in 2007 => 1.56% recently
- AUM expanding: scale economies
- DIS (Default Investment Strategy): fee cap
- eMPF: better use of electronic facilities
- Exercise your right to choose!
(ECA: Employee Choice Arrangement)





Low Returns: the First 16 Years

(As of July 2017)

- 4.3 % overall, versus 1.8% inflation
- Much depends on choice
 - equity 5.0%
 - mixed assets 4.4%
 - bond 2.8%
 - guaranteed 1.2%
 - conservative 0.7%
 - money markets 0.5%
- Exercise your right to choose!
- Dollar cost averaging



MPF Insufficient for Retirement

- For most people, that would be true
- System still young (16 years +)
- BASIC retirement protection (5% + 5%)
- Example of an unlucky 25 years old who never got a pay raise in his life
- MPF only one of several pillars



“Enriches fund managers”

- Why give money to mutual funds for management?
- What are the alternatives?



“I’m better off buying Tracker Fund”

- Well, actually you can’t
- MPF gives small savers access to diversified portfolio





Achievements of MPF

- 85% of working population now covered by retirement schemes (before: only 1/3)
- Accumulated \$774 billion since inception
- Fiscal reserves: \$987 billion
- Out of \$774 billion, 28% is investment gain
- Voluntary contributions accounting for 19% of total contributions received



Public Policy

- Not about crafting a policy that's above criticisms
- But choosing between policy trade-offs
- MPF in the right direction
- MPF bashing leads public to not scrutinize their life savings





MPF Investment Performance

Annualized Internal Rate of Return(IRR) of the MPF System by Period

期間 Period	(百萬港元) (HK\$ million)				年率化內部 回報率 Annualized IRR
	淨資產值 Net Asset Values		期內總淨供款 Total Net Contributions during the Period (c)	期內 淨投資回報 Net Investment Return during the Period (b)-(a)-(c)	
	期始 Period- Beginning (a)	期末 Period- End (b)			
1.12.2000 – 31.3.2002	-	42,125	43,878	-1,753	-4.9%
1.4.2002 – 31.3.2003	42,125	59,305	23,016	-5,837	-10.7%
1.4.2003 – 31.3.2004	59,305	97,041	22,133	15,604	22.0%
1.4.2004 – 31.3.2005	97,041	124,316	22,205	5,070	4.7%
1.4.2005 – 31.3.2006	124,316	164,613	23,435	16,862	12.3%
1.4.2006 – 31.3.2007	164,613	211,199	24,684	21,901	12.4%
1.4.2007 – 31.3.2008	211,199	248,247	26,844	10,205	4.5%
1.4.2008 – 31.3.2009	248,247	217,741	38,503	-69,010	-25.9%
1.4.2009 – 31.3.2010	217,741	317,310	29,484	70,086	30.1%
1.4.2010 – 31.3.2011	317,310	378,280	31,864	29,106	8.7%
1.4.2011 – 31.3.2012	378,280	390,744	34,687	-22,224	-5.6%
1.4.2012 – 31.3.2013	390,744	455,331	38,321	26,267	6.4%
1.4.2013 – 31.3.2014	455,331	516,192	40,898	19,963	4.2%
1.4.2014 – 31.3.2015	516,192	594,847	44,126	34,529	6.4%
1.4.2015 – 31.3.2016	594,847	592,578	48,721	-50,990	-8.2%
1.4.2016 – 31.3.2017	592,578	701,166	48,467	60,121	9.7%
1.4.2017 – 31.7.2017	701,166	774,061	15,530	57,366	8.1%
自強積金制度實施以來 Since Inception of the MPF System					
1.12.2000 – 31.7.2017	-	774,061	556,796	217,265	4.3%



Annualized Return of Approved Constituent Funds by Fund Type and Period (as at 31 July 2017)

基金種類 Fund Type	過去一年 Past 1 year	過去三年 Past 3 years	過去五年 Past 5 years	自 1.12.2000 Since 1.12.2000
股票基金 Equity Fund	23.2%	4.8%	8.5%	5.0%
混合資產基金 Mixed Assets Fund	13.8%	3.2%	6.2%	4.4%
強積金保守基金 MPF Conservative Fund	0.1%	0.1%	0.1%	0.7%
保證基金 Guaranteed Fund	1.1%	0.6%	0.8%	1.2%
債券基金 Bond Fund	-0.8%	0.4%	0.4%	2.8%
貨幣市場基金及其他基金 Money Market Fund and Others	0.7%	0.1%	0.2%	0.5%
同期消費物價指數變更 Change of the Consumer Price Index (CPI) for the Same Periods				
年率化綜合消費物價指數變更 Annualized Composite CPI % Change	1.9%	2.3%	3.5%	1.8%



Administrative Work

- **Complicated administrative work and high cost**
 - 14 active trustees and 32 MPF schemes in operation
 - > 9.3 million MPF accounts
(around 3.9 million contribution accounts + 5.4 million personal accounts)
 - 65% of the 30 million administration transactions processed in the system per year are paper based or executed via cheques



MPF – Government Managed?

- Administration
- Fund management
- Potential public demand for guaranteed returns
- Issue of choice



Long-term Issues

- Optimal contribution rates
 - Basic retirement protection
 - Provision for dependents
- Tax incentives for contributions
- Home purchase
- Return on investment





The End

