

MPFA Updates: Latest Developments of MPF System and Their Impacts on HR Practitioners

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2 Feb 2018**

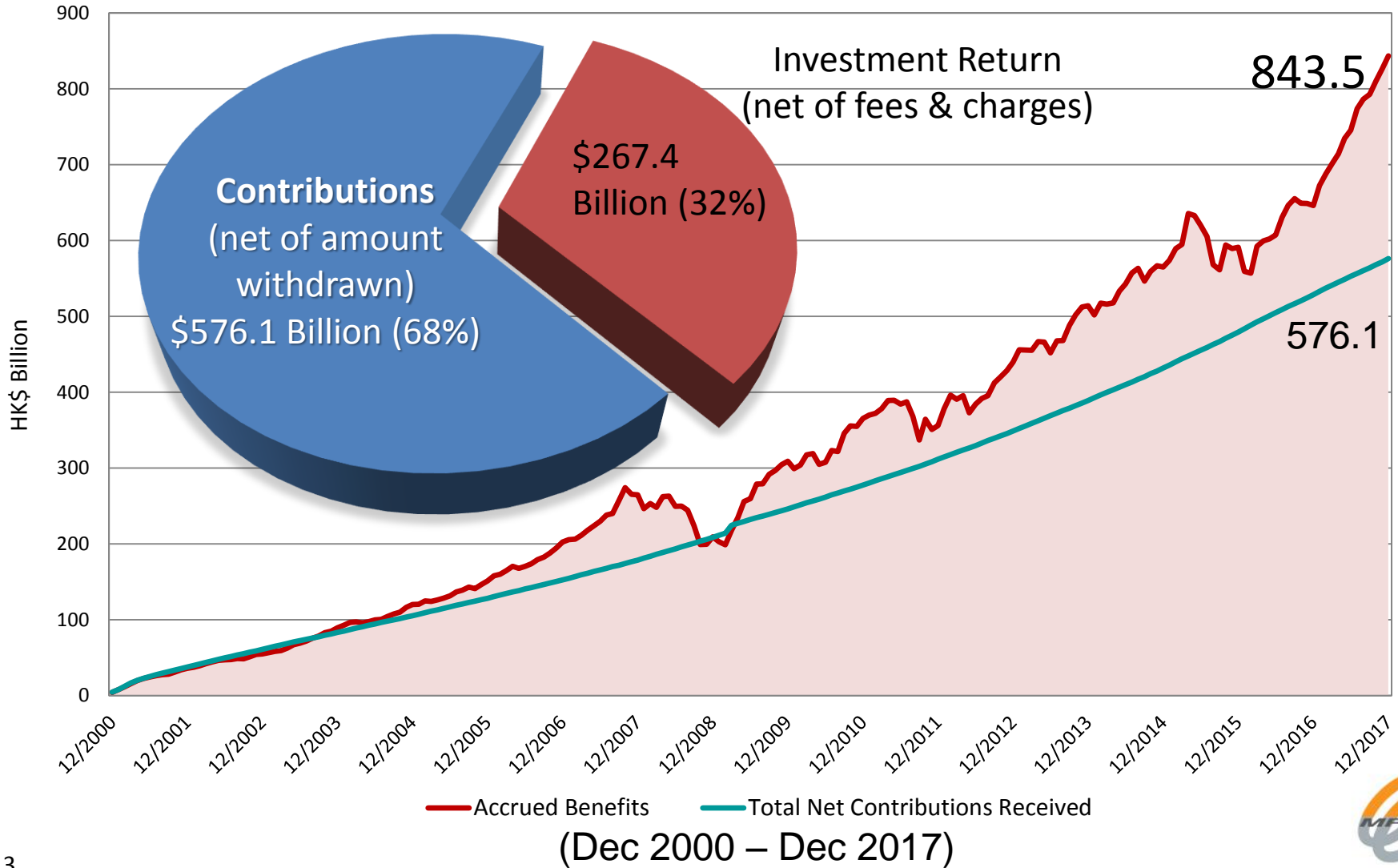


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MPF Performance



MPF ACCRUED BENEFITS AND NET CONTRIBUTIONS





2

Major Reform in 2017 – Default Investment Strategy (DIS)





Default Investment Strategy

Introduced in April 2017

- ❑ One of the most important MPF reforms
- ❑ Mainly for members who **do not know how** to manage or are **not interested** in managing their MPF
- ❑ Standardizes the default investment arrangements of MPF schemes
- ❑ Suitable for long-term retirement investment
- ❑ Also addresses concerns about the difficulty of making investment decisions and high fees



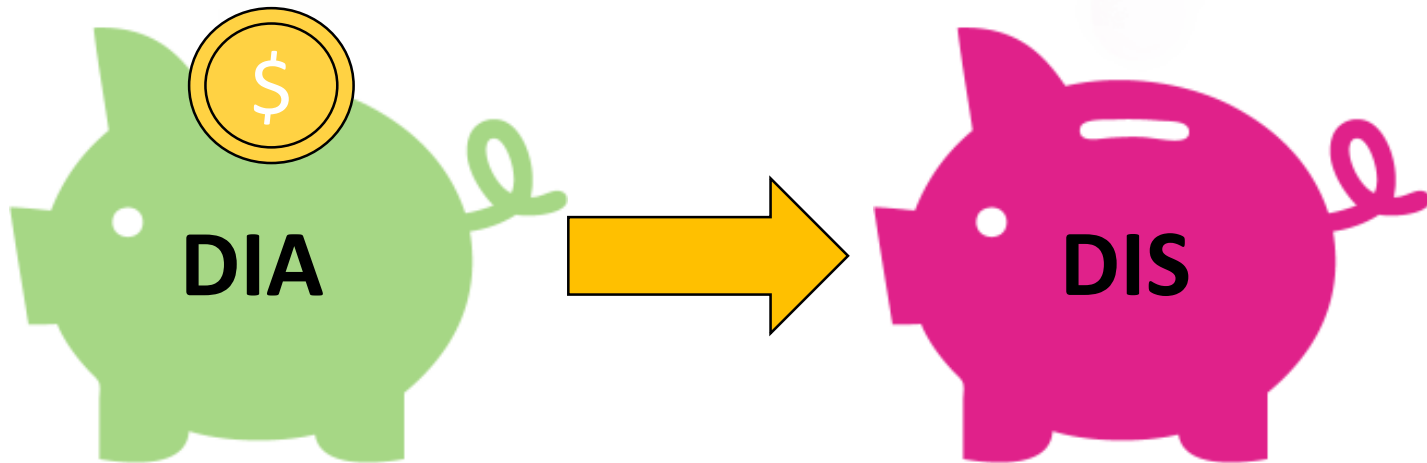


Default Investment Strategy

- Is **1 ready-made** investment solution
- Uses **2 mixed assets funds**
 - i. Core Accumulation Fund (CAF)
 - ii. Age 65 Plus Fund (A65F)
- Has **3 key features**
 - A. Automatic, age-dependent, de-risking approach
 - B. Fee caps
 - C. Globally diversified investment

Default Investment Strategy

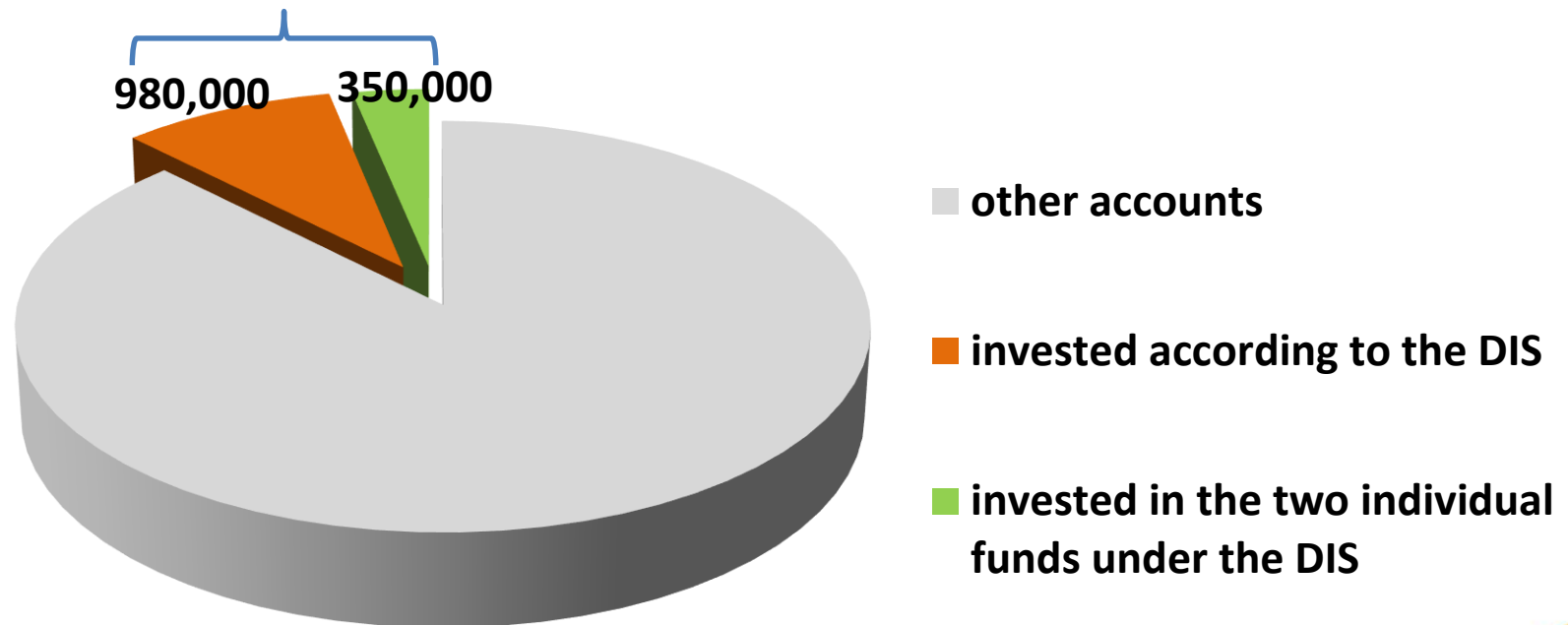
- About \$6.48 billion of assets were transferred from default investment arrangements (DIA) to the DIS, involving 550,000 MPF accounts



(as at end Nov 2017)

Default Investment Strategy

- The MPF benefits of **1,330,000** (14%) MPF accounts were invested according to the DIS, or in the two individual funds under the DIS, involving about **\$21.3 billion** (2.6%) of MPF assets.

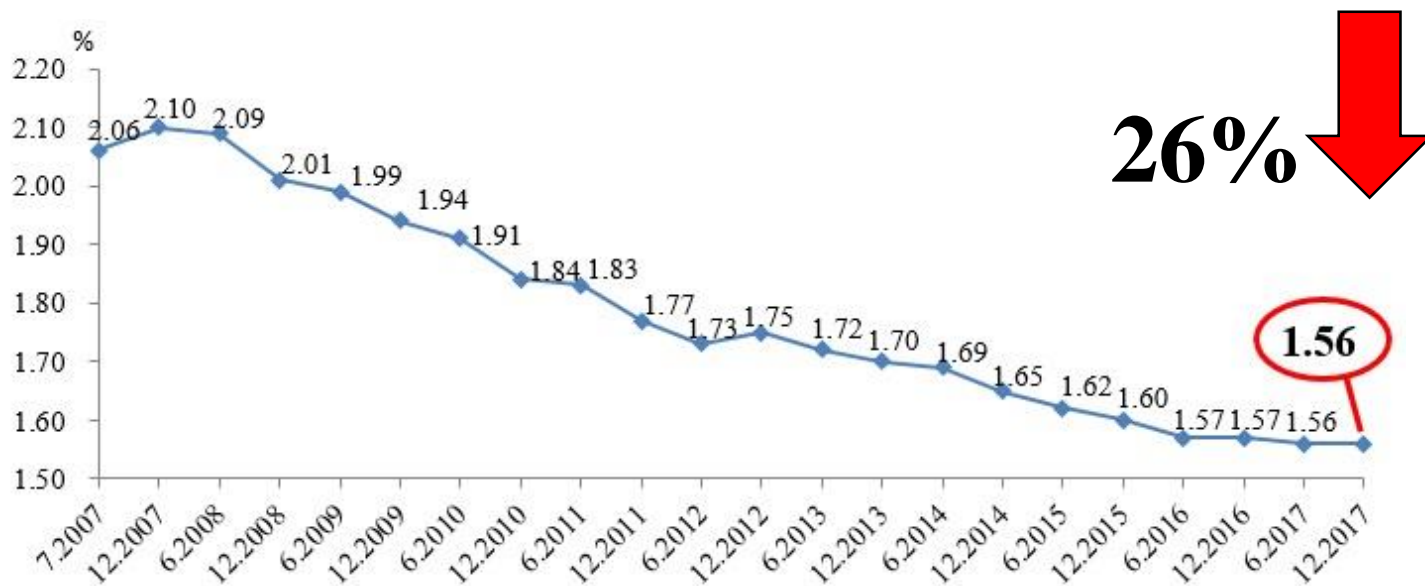


(as at end Nov 2017)



Default Investment Strategy

- **With the fees of the DIS funds capped, DIS would have a benchmark effect on the market**
 - 87 MPF funds (19%) have cut their fees since May 2016 when the DIS Bill was passed
 - the biggest reduction up to 54.55%
- **Fund Expense Ratio (FER)**





Default Investment Strategy

Key Message to Employers

If new employees have difficulty making investment decisions while filling out MPF enrolment form, you may tell them the following:

DIS may be the choice for those who do not know how to invest

It is the default arrangement if one does not choose MPF funds

DIS helps you manage your retirement savings over a period of several decades by providing you with a ready-made investment solution

DIS has 3 Key Features

- Automatic de-risking
- Fee caps
- Diversified investment



3

Enforcement Actions to Promote Compliance



Enforcement Actions to Promote Compliance

- Recovered contributions in arrears and surcharges for employees in 2017



\$ 130 million

Enforcement Actions to Promote Compliance

➤ Monitoring through multiple channels

1

Reported by Trustee : 55,000 cases

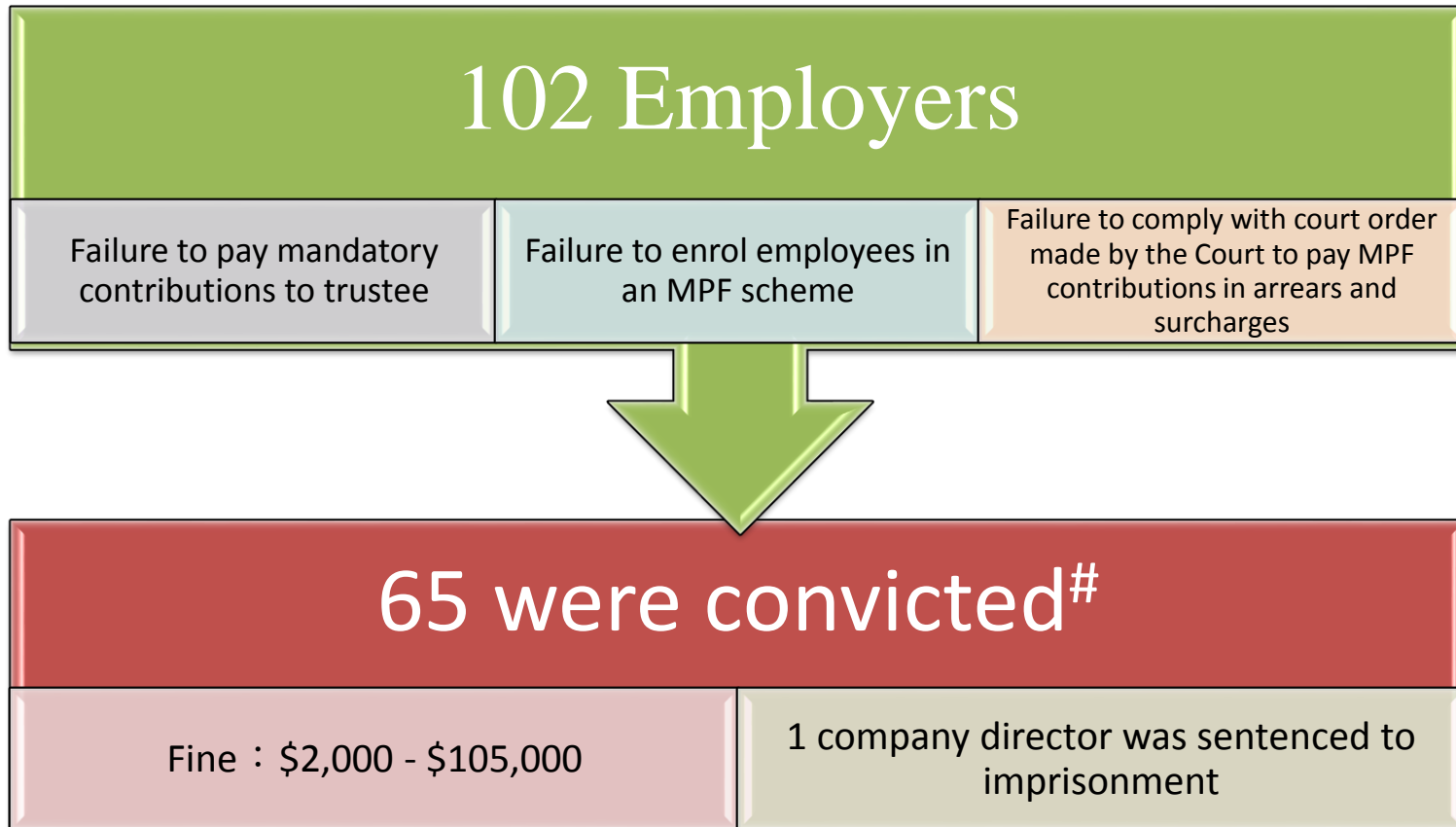
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Proactive Inspection : 2,000 employers

3

Targets of complaints : 3,830 cases

Enforcement Actions to Promote Compliance



#Another 36 cases awaiting judgement





Enforcement Actions to Promote Compliance

3 Key Messages to Employers

Prompt Action

Employers should ensure both payment and remittance statement reach trustee by the 10th of each month

Employers should settle both contribution in arrears and surcharge in one go without waiting for the payment notice from MPFA

Settle Contribution and Surcharge Together

Use Electronic Services

Use online system or contribution software from trustees in submitting remittance statement to avoid admin errors or delay



4

Amendments in the Pipeline





Proposed Amendments to Occupational Retirement Schemes Ordinance (Cap 426) (ORSO)





Proposed Amendments to ORSO

- ❑ MPFA is the Registrar of occupational retirement schemes (ORSO schemes)
- ❑ The substantive provisions of ORSO remained unchanged for over two decades
- ❑ Identified certain areas of the Ordinance that should be improved
- ❑ To make the policy intention unequivocally clear, and to strengthen the regulatory framework of the regime
- ❑ Drawn up a number of proposed amendments to ORSO
- ❑ Will be discussed in LegCo in due course



Proposed Amendments to ORSO

Policy Intention of ORSO

- ❑ ORSO schemes are **employment-based retirement schemes** set up voluntarily by employers to provide retirement benefits to their employees
- ❑ ORSO schemes should not be used for any purpose other than occupational retirement protection, e.g. promoting ORSO schemes as investment products to the public (local or overseas)



Proposed Amendments to ORSO

Objectives of Amendments

- ❑ To refine the wording of the legislation to make the policy intent explicitly clear that ORSO schemes should be employment-based schemes established by employers for providing retirement benefits to their employees
- ❑ To reinforce the power of MPFA as ORSO Registrar to investigate and impose enhanced sanctions in case of non-compliance



Proposed Amendments to ORSO

Essentially, the proposed amendments include:

- ❑ Limit membership of the scheme to employees of the relevant employer of the scheme
- ❑ Stop granting Exemption Certificate under the ORSO
- ❑ Enhance and modernize regulation, investigation and enforcement provisions in ORSO to better protect members' interests



Review of Minimum and Maximum Relevant Income Levels





Review of Minimum and Maximum Relevant Income Levels

- Minimum and maximum relevant income levels (Min & Max RI):
 - Min RI (currently \$7,100): Employees with RI lower than this level need not contribute, but their employers still need to contribute
 - Max RI (currently \$30,000): Both employers and employees need not make contributions for RI higher than this level, i.e. the maximum contribution each is \$1,500 ($\$30,000 \times 5\%$)



Review of Minimum and Maximum Relevant Income Levels

- MPFA is required by law to regularly review the Min & Max RI levels according to the statutory adjustment mechanism, and submit the review findings to Government for consideration
- Next review due date: July 2018



Review of Minimum and Maximum Relevant Income Levels

Reasons for setting Min & Max RI

Min RI : For lower income earners, current living standards are more imminent than retirement protection. Therefore, they are not required to make contributions to avoid imposing extra financial burden on them

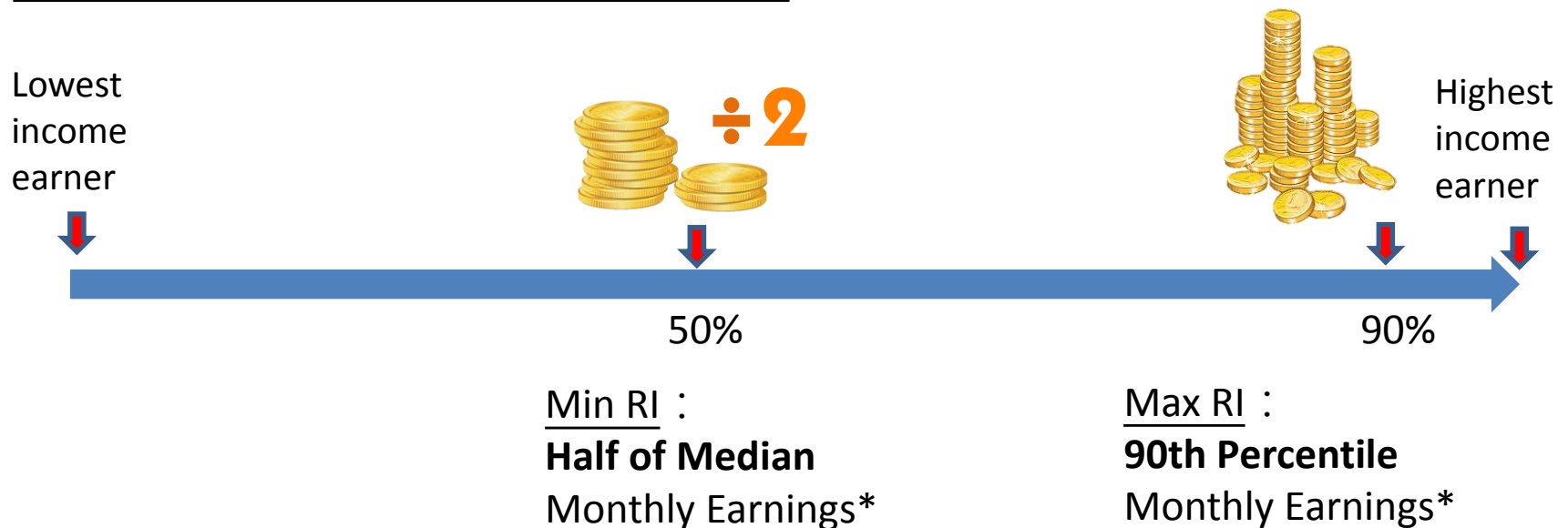
Max RI : High income earners should be able to save for themselves, therefore contribution is not required for income beyond certain level



Review of Minimum and Maximum Relevant Income Levels

Statutory Adjustment Factors

Employment income distribution

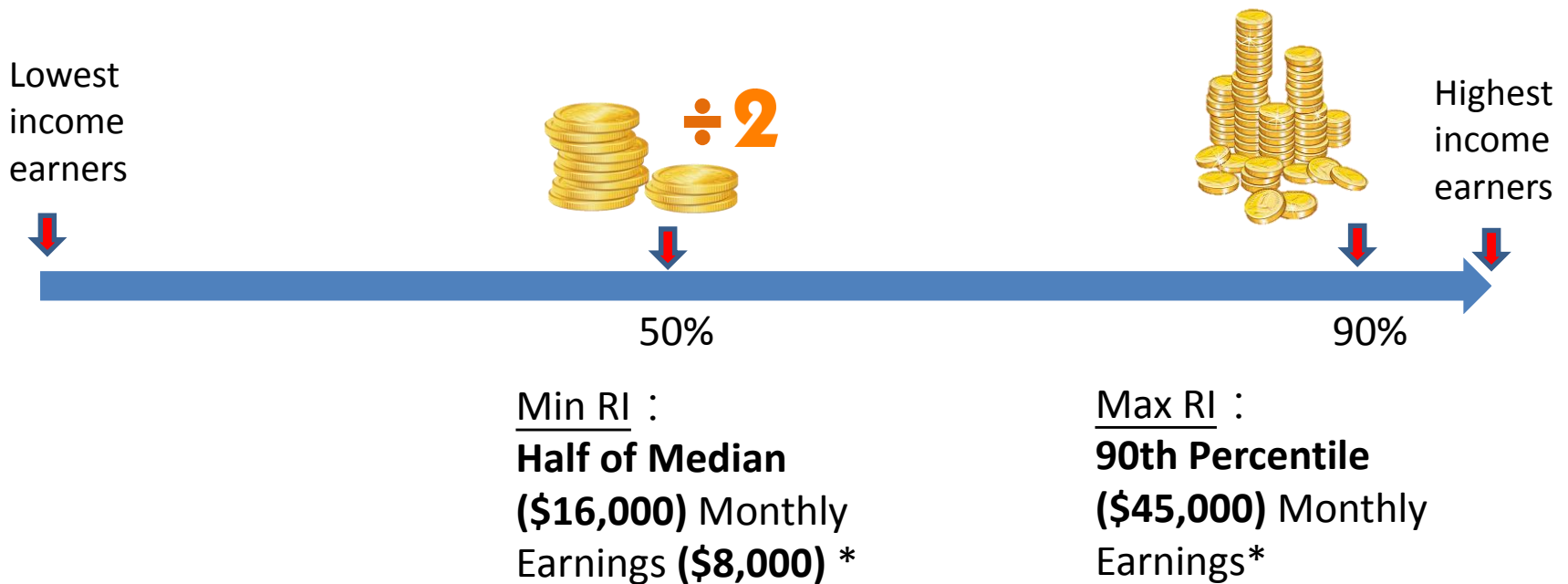


* Census and Statistics Department's General Household Survey

Review of Minimum and Maximum Relevant Income Levels

Statutory Adjustment Factors

Employment income distribution



* Census and Statistics Department's General Household Survey (Q3 2017)



Review of Minimum and Maximum Relevant Income Levels

According to the statutory adjustment factor

- Min RI should be adjusted from \$7,100 to \$8,000
- Max RI should be adjusted from \$30,000 to \$45,000





Review of Minimum and Maximum Relevant Income Levels

Reasons for adjustment

- Adjustment over time to reflect income distribution of workforce
- For MPF to effectively perform its retirement protection function



Review of Minimum and Maximum Relevant Income Levels

Proposed Adjustment & Implementation Arrangement

Min RI

Based on statutory adjustment factor:

From	Adjust to
\$7,100	\$8,000

Max RI

Based on statutory adjustment factor:

From	Adjust to
\$30,000	\$45,000





Review of Minimum and Maximum Relevant Income Levels

Proposed Adjustment & Implementation Arrangement

Upward adjustment of Max RI (assuming to implement in two phases)

Phase 1 (first 2 years)	
From	Adjust to
\$30,000	\$37,500

Phase 2 (after first 2 years)	
From	Adjust to
\$37,500	\$45,000





Review of Minimum and Maximum Relevant Income Levels

Proposed Adjustment & Implementation Arrangement

Upward adjustment of Max RI (assuming to implement in three phases)

Phase 1 (first year)	
From	Adjust to
\$30,000	\$35,000

Phase 2 (second year)	
From	Adjust to
\$35,000	\$40,000

Phase 3 (third year and onwards)	
From	Adjust to
\$40,000	\$45,000





eMPF



At present

- each MPF trustee operates its own unique administration system
- extremely paper-intensive
- 30 m transactions yearly, 2/3 involves manual / paper
- operationally inefficient
- a lot of administrative costs (43% of Fund Expense Ratio (“FER”) (0.75% out of 1.74%) - 2012 Study)



The MPFA is currently in the process of mapping out the design and functionalities of the eMPF platform

Objectives

1

**Improve
accuracy,
reliability and
efficiency**

2

**Lower
costs and
fees**

3

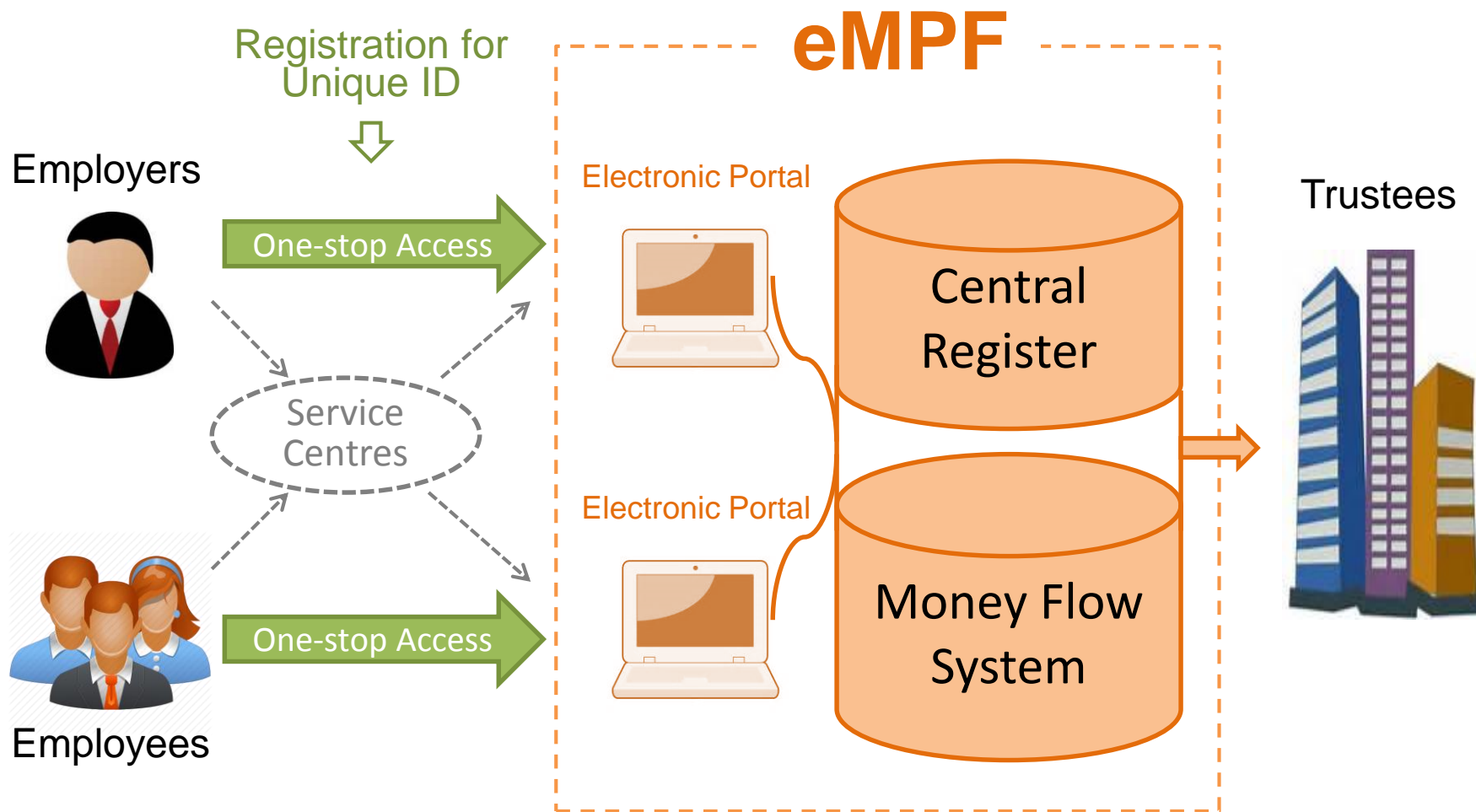
**Enhance user
experience**

4

**Enable future
reform**

Key Features

- Unique user ID
- Central database
- Electronic one-stop access
- Streamlined electronic processing
- Standardized procedures, forms and formats
- Service centres to assist less computer-literate during transition



With eMPF

- centralize collection of MPF contributions and information from employers electronically
- automatic calculation of contributions and submission of such information to the trustees
- one-stop electronic portal for scheme members to access all relevant information about their MPF

End Results

- Reduce costs further
- Pave the way for “full portability” of MPF

Employers and Employees



Paper



Electronic



- Digital take-up to realize benefits
- Encourage better use of existing trustees' e-Services
- Gap analysis on digital take-up
- Campaign to promote digital take-up in 2018



Offsetting of Long Service Payment (LSP) and Severance Payment (SP) against MPF Contributions





SP/LSP Offsetting

- The Government proposes to progressively abolish the SP or LSP offsetting with MPF contributions in Policy Address 2017
- Government consulting stakeholders
- MPFA supports the efforts of the Government to find a solution for this contentious issue and will take necessary complementary actions to implement any agreed solution



End

