



# **City University of Hong Kong CEO Forum**

## **“MPF and Retirement Protection”**

**Dr David Wong Yau-kar, GBS, JP  
Chairman**

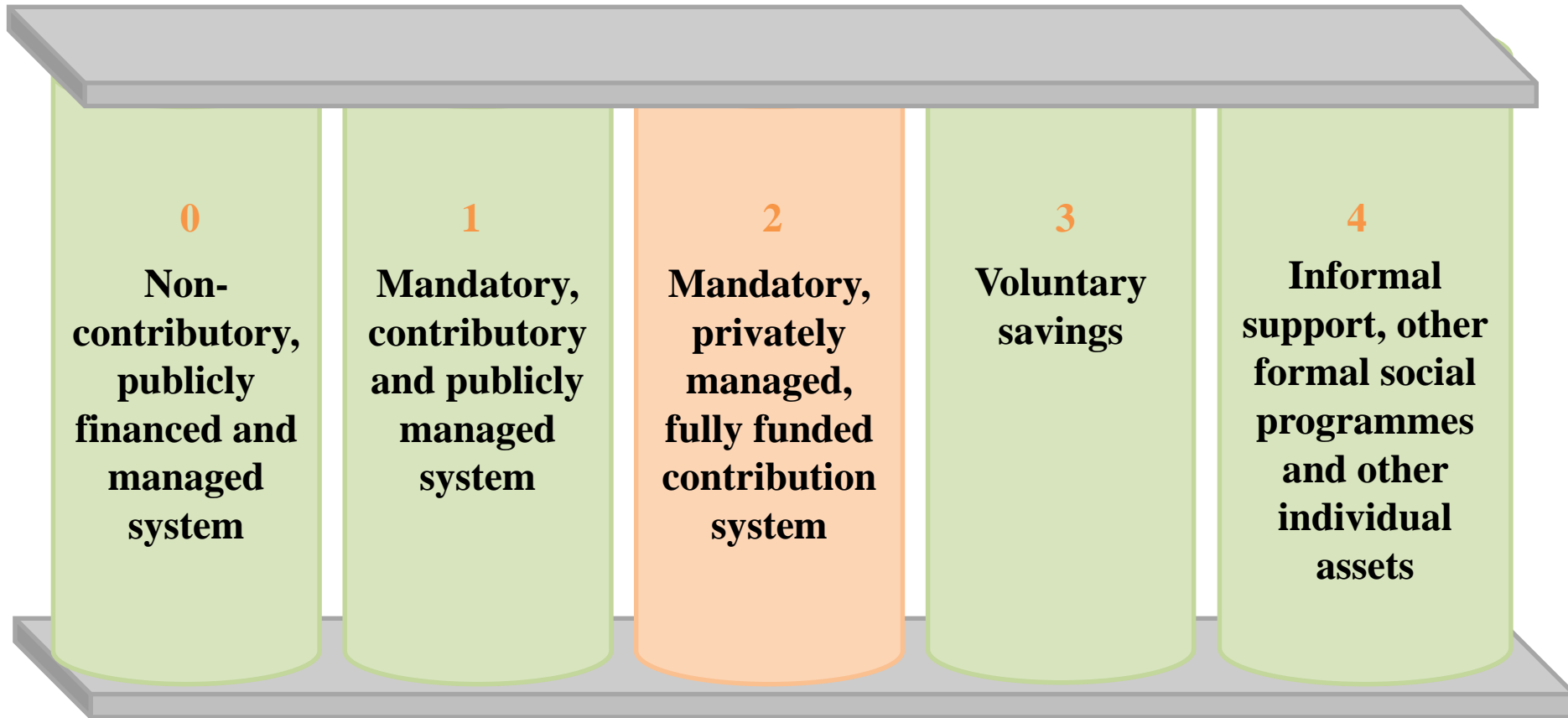
**Mandatory Provident Fund Schemes Authority**

**14 May 2018**





# MPF as Pillar 2 of the World Bank's Multi-pillar Retirement Protection Framework





# 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 and irregular contributions for portfolio diversification
- Fully funded, financially sustainable
- Trustees/schemes chosen by employers\*; funds chosen by employees
- Decentralized

\* Under the Employee Choice Arrangement (ECA), employees can opt to transfer the accrued benefits arising from employees' mandatory contributions in their contribution accounts from an MPF scheme under current employment to a scheme of their own choice once a year





# Public's common impressions and criticisms on the MPF System

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





# Fees Too High ( I )

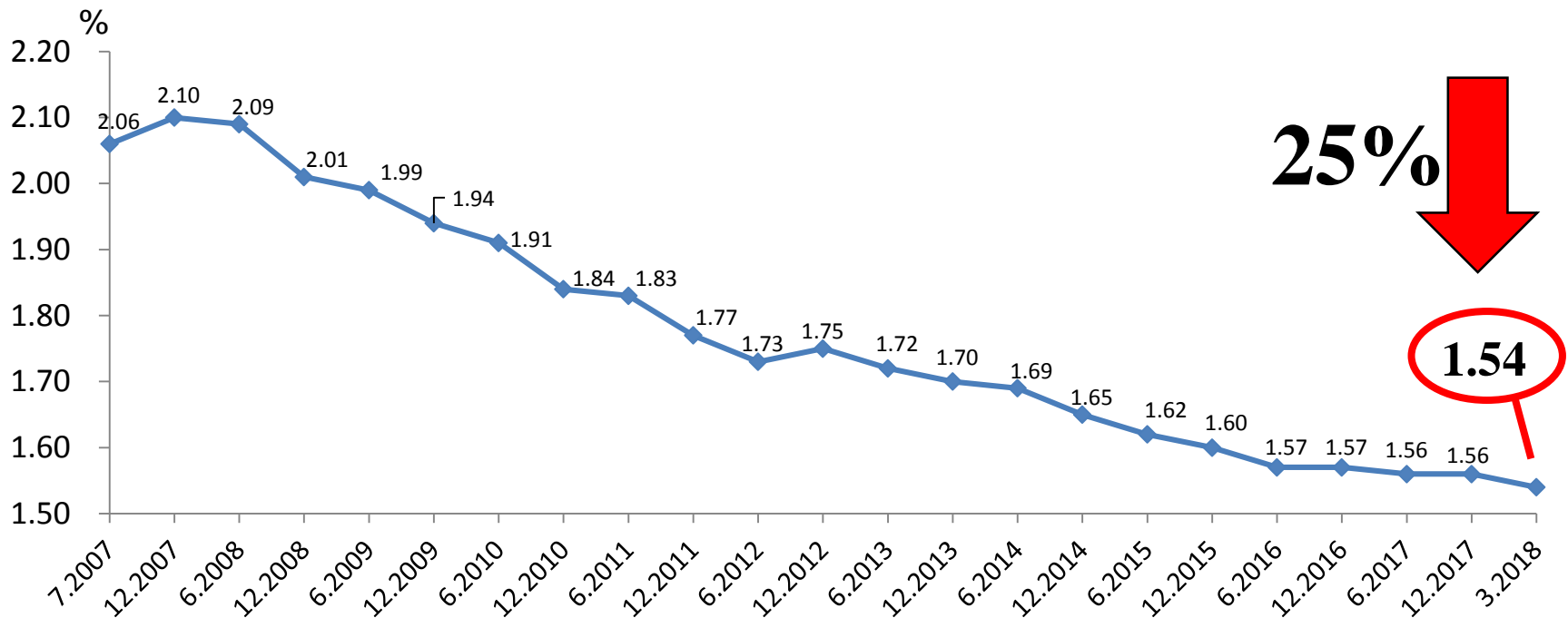
- Two components:
  - fund management
  - administration
- Massive piece of social engineering
  - Number of MPF accounts
    - around 9.5 million
  - Number of enrolments
    - 281 000 employers
    - 2 586 000 employees
    - 206 000 self-employed persons



## Fees Too High ( II )

- A lot of paperwork
- Small, irregular monthly sums
- Low contribution (5% + 5%)
- Lots of industry participants (14 active trustees)

# Average Fund Expense Ratio (Fees)



Fund Expense Ratio (FER) is a ratio that measures the expenses of an MPF fund as a percentage of fund size based on data from the most recently ended financial period. The higher the ratio, the higher the percentage of expenses to fund size.







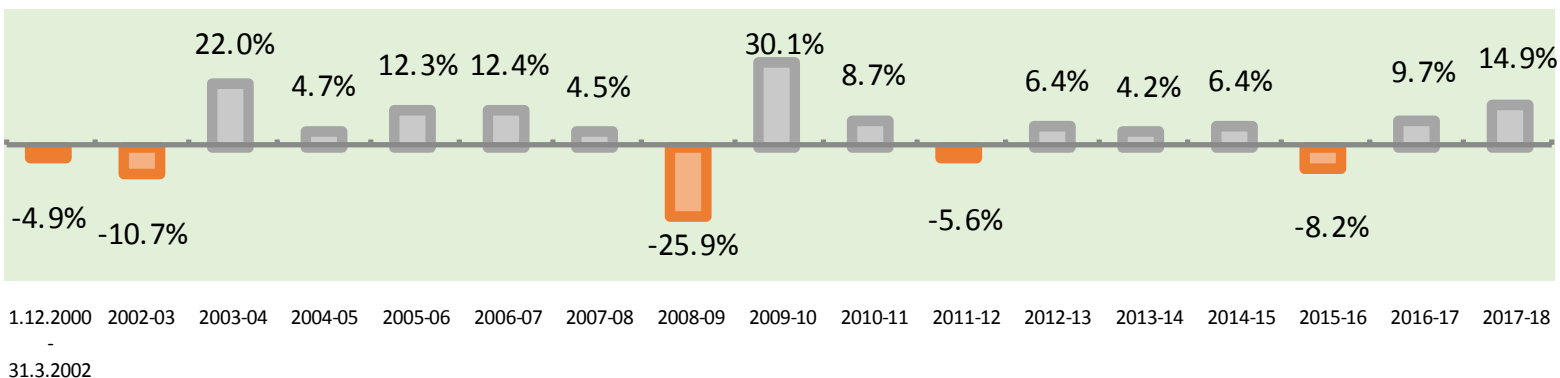
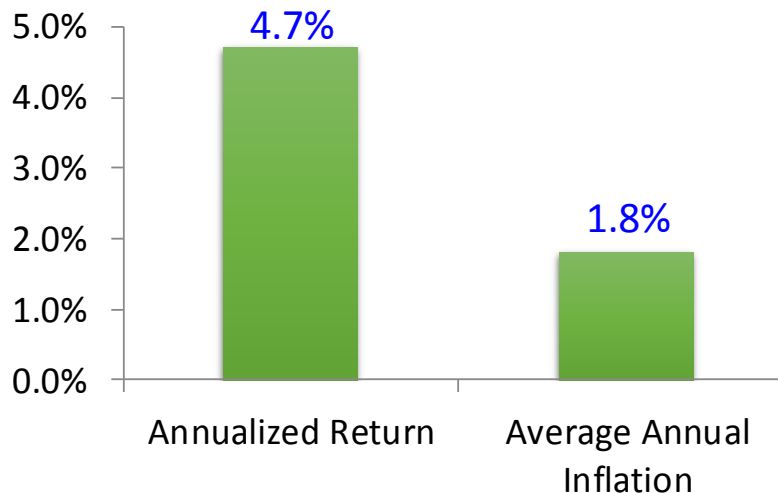
# Solutions to High Fees

- 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?

Annualized rate of return since inception (net of fees & charges)

(1.12.2000 – 31.3.2018)



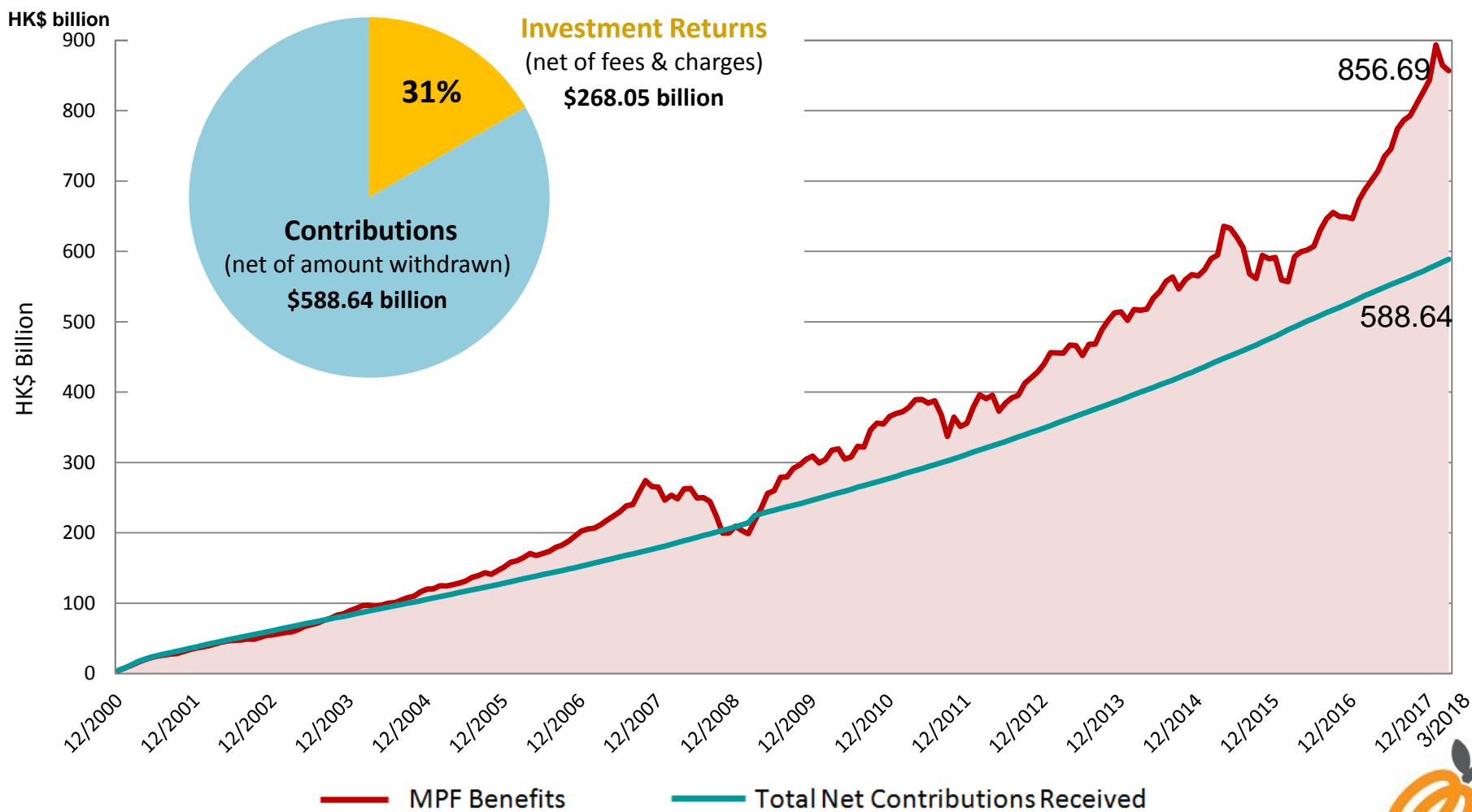
Return is calculated using the internal rate of return (“IRR”) method





# MPF Benefits and Net Contributions

(1.12.2000 – 31.3.2018)



# Investment returns in 2017 by fund type

Fund type	Return in 2017	Dec 2000 to Dec 2017	
		Annualized return	Cumulative return
Equity Fund	34.4%	5.5%	147.7%
Mixed Assets Fund	22.3%	4.6%	117.3%
Bond Fund	4.8%	2.7%	58.9%
Guaranteed Fund	3.0%	1.2%	23.4%
Money Market Fund (non MPF Conservative Fund)	2.5%	0.6%	10.3%
Money Market Fund (MPF Conservative Fund)	0.1%	0.7%	13.0%



# How to address returns concern?

- Exercise your right to choose!
- Dollar cost averaging





# MPF Insufficient for Retirement

- For most people, that would be true
- System still young (17 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

- Around 84% of working population now covered by retirement schemes (before: only 1/3)
- Accumulated \$857 billion since inception as at March 2018
- Fiscal reserves \$1,102.9\* billion
- Out of \$857 billion, 31% is investment gain
- Voluntary contributions accounting for 15% of total contributions received during 2017

\* As at 31 Mar 2018





# 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





# Administrative Work

- **Complicated administrative work and high cost**
  - 14 active trustees and 32 MPF schemes in operation
  - 9.5 million MPF accounts  
(around 4 million contribution accounts + 5.5 million personal accounts)
  - 2/3 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 concession for voluntary contributions announced in FS Budget Speech this year (details are yet to be announced)
- Home purchase
- Return on investment





**Thank You!**

