

Towards Retirement Security

Reading Guide

Background

1. Launched on 1 December 2000, the Hong Kong Mandatory Provident Fund (MPF) System will soon have been in operation for 15 years.
2. The publication *Towards Retirement Security* was prepared by the Mandatory Provident Fund Schemes Authority (MPFA) with the objective of renewing the public's understanding of the MPF System, particularly its place in Hong Kong's overall retirement protection framework.

Highlights of *Towards Retirement Security*

3. Providing income security in retirement to an ageing population is an issue of paramount importance faced by many societies. Policymakers and pension experts are continuously exploring the best ways to enhance retirement income security for the elderly, while avoiding placing an excessive financial burden on the rest of society.
4. The World Bank recommends a multi-pillar retirement protection framework, consisting of a non-contributory publicly managed system; a mandatory, contributory and publicly managed system; a mandatory, privately managed system; voluntary savings; and informal support, formal social programmes and individual assets.
5. Since one pillar may achieve a particular objective and serve a particular target group better than other pillars, a multi-pillar framework is best suited to providing a comprehensive retirement protection solution to the population as a whole. Whether and how to put in place each of these pillars depends on the specific circumstances of each society.
6. While government-provided retirement benefits go as far back as the Roman Empire, the modern public pension system started only in the 19th century. Over time, the coverage and generosity of public pension systems in some countries expanded considerably, particularly after World War II.
7. Since the 1980s, fiscal pressure and demographic changes have resulted in reforms of public pension systems in a number of countries. To make them more financially sustainable, there have been substantial changes to some of these systems or parts of them.
8. A major direction of reform has been to reduce pension expenditure or at least contain its growth. While some countries have added fully funded, defined contribution (DC) systems (i.e. second pillar) to their multi-pillar retirement protection framework in order to reduce the risk of over-reliance on the pillars financed by government revenue, a number of others have replaced their public pension systems partly or entirely with second pillar systems. Some countries have placed their focus on extending coverage of retirement protection only to the most vulnerable groups of society.

9. Over the past few decades, second pillar systems have received support in different parts of the world. The major role of second pillar systems is to help the employed population save for retirement.
10. As fully funded systems, second pillar DC systems are financially sustainable. They are also actuarially fair, as members can withdraw savings only from their own accounts, and their benefits are basically linked to the amount they contributed.
11. By requiring current workers to accumulate savings for their retirement, second pillar systems help avoid passing the pension bill to the next generation.
12. In Hong Kong, the establishment of the MPF System can be considered a landmark in Hong Kong's retirement protection. As a second pillar system, the role of the MPF System is to help the employed population save for retirement.
13. Since its implementation in December 2000, the MPF System has continued to evolve and progress. Refinements in areas such as the regulatory framework, supervision of the industry, enforcement and public education have been made to the MPF System with the objective of enhancing scheme members' benefits. Since it takes an average working life of about 40 years for such a retirement savings system to mature, the MPF System is still in the development stage. Refinements and improvements will continue to be implemented step by step in response to the changing environment.
14. Looking ahead, the two major initiatives that are being undertaken by the MPFA are the implementation of a highly standardized, fee-controlled default investment strategy, and exploring further fundamental measures to streamline and standardize the administration of MPF schemes.
15. From the outset, the MPF System was intended to provide basic retirement protection for the employed population of Hong Kong, but by itself, it is not sufficient to cover all the retirement needs of the whole population. Hong Kong's overall retirement protection system is and needs to be supported by other pillars alongside the MPF System.
16. With reference to the World Bank's multi-pillar framework, Hong Kong's current retirement protection setup includes various social security programmes (e.g. the Comprehensive Social Security Assistance Scheme), MPF schemes, occupational retirement schemes, personal savings and investments, family support, individual assets, and a wide range of social services provided directly or indirectly by the Government, such as health care, elderly care services and public housing.
17. The different pillars need to continue to work together to provide total retirement protection for the population, particularly in view of our ageing population and the risk of decelerating economic growth in Hong Kong.