



This Annual Report of the Mandatory Provident Fund Schemes Authority (MPFA) covers the year from 1 April 2002 to 31 March 2003, the second full year of operation of the Mandatory Provident Fund (MPF) System.

Having experienced rapid growth in the initial year of the implementation of the System, the rates of enrolment in MPF schemes stabilized during the year 2002-03. As at 31 March 2003, 93.8% of employers and 95.7% of relevant employees have joined MPF schemes, as compared with the respective rates of 92.1% and 95.5% as at the end of March 2002. The enrolment rate of self-employed persons decreased from 85% to 75.8% due to an increase in the self-employed persons' universe as reported by the Census and Statistics Department. The total numbers of employers, employees and self-employed persons participating in MPF were 217 000, 1 716 000 and 302 000 respectively. Taking into account members of the workforce who have participated in other retirement schemes, about 84% of the total workforce in Hong Kong was covered by some form of retirement protection as at the end of March 2003. This is a remarkable achievement in comparison with the situation in the pre-MPF era, when only about one-third of the workforce was covered by retirement protection schemes.

The high enrolment rates reflect not only the law-abiding attitude of the public but also the working population's acceptance of the MPF System as a long-term savings scheme for retirement. They are also the result of the arduous efforts made by the MPFA to reach out to all levels of the community to drive home the message of MPF benefits, as well as the enforcement actions taken to uphold the credibility and integrity of the System.

While the enrolment rates remain stable, the size of MPF assets has been steadily increasing. As at the end of March 2003, the aggregate net asset value of all MPF schemes, including assets transferred from ORSO schemes, amounted to \$59 billion. The amount of MPF contributions has been maintained at about \$2 billion per month. This continuously growing pool of funds is an important impetus to the local fund management industry. Furthermore, many consider that the high participation rate of the workforce in MPF has increased the awareness of the need for saving and retirement planning.

In the past years, the investment performance of MPF, as expected, had been affected by the depressed state of the global as well as the local investment markets. As to asset allocation, the overall asset allocation of approved constituent funds was approximately 26% deposits and cash, 30% debt securities and 44% equities as at end of March 2003. The proportion of local and overseas assets has been maintained at roughly 60% and 40% respectively.

In response to the demand for more flexibility in investment products, the MPFA had proposed to relax the restrictions on investment in index-tracking collective investment schemes. These proposals were effected by the passage of the relevant legislation in July 2002, and 39 of these funds were subsequently approved by the MPFA.

The MPFA has also monitored the investment preferences of scheme members to ensure that the product range and development would meet members' needs. Given the depressed economy and low interest rates, it was quite evident that MPF scheme members preferred conservative investments such as guaranteed funds and capital preservation funds. As at 31 March 2003, the net asset values of capital preservation funds and guaranteed funds accounted for 38% of the total net asset values of all approved constituent funds, while equity funds represented only 12% of the total asset values.

Chairman's Statement *Continued*

In the past year, there had been little activity in the MPF industry in terms of market rationalization. A case of a trustee withdrawing from scheme administration and another case of schemes merging were being processed. In the coming year, the MPFA expects that similar activities will continue, particularly the outsourcing of scheme administration functions. At the end of the financial year, within the MPF industry, there were 20 trustees, 318 constituent funds, 249 approved pooled investment funds and more than 26 000 registered intermediaries.

Having the MPF System up and running as one of the three pillars of protection for the elderly advocated by the World Bank does not mean that we can be complacent. We must not forget to keep in view the development and serious implications of an ageing profile of the population. According to the projection of the Census and Statistics Department, the proportion of people aged 65 or above will rise markedly from 11.5% in 2001 to 24% by 2031¹. The projected dependency ratio also indicates that in about 30 years' time, the number of persons aged between 18 and 65 available to support a person aged 65 or above will decrease from six to less than three². At the same time, with the advance in medicine and technology, we must not lose sight of Hong Kong's increasing average life expectancies of both males and females. In 2002, the average life expectancies of males and females were 78.7 years and 84.7 years respectively³. The increasing trend of average life expectancies will impact on the amount of savings required to support a person after retirement.

In the course of the past few years, there have been calls for the suspension of the MPF System or a reduction in MPF contribution, ostensibly as a measure to re-vitalize the economy. Whilst the short-term economic benefits to be derived from a suspension or reduction are at best dubious, the long-term damage to a key social programme in addressing the growing and inevitable problem of an ageing population is certain and irreparable.

After the successful launch of the MPF System and overcoming the initial teething problems in scheme administration in the first year of MPF operation, the MPFA has made fruitful efforts in reviewing and refining the System, whilst strengthening its own regulatory and enforcement abilities and building up the organization. It has also initiated a series of longer-term projects, which will take a few years to accomplish. The review of the operational and administrative aspects of both the MPF and ORSO legislation will continue at least into 2003-04. The projects on disclosure of MPF fees and charges and investment performance, and the adoption of a risk-based strategy in the supervision of MPF trustees, both initiated in 2002-03, will take three to five years to be fully developed and implemented.

1 *Hong Kong Population Projections 2002-2031*, Census and Statistics Department.

2 *ibid.*

3 *Women and Men in Hong Kong - Key Statistics (2003 Edition)*, Census and Statistics Department.

On account of all the above achievements, I must place on record the Management Board's appreciation of the significant contributions made by the Managing Director, Mr Rafael Hui, to the establishment and implementation of the MPF System. Without his inspiring leadership and an intimate understanding of the intricacies of the System, the operation of the MPFA would not have been so smooth. As this report is being prepared, it is known that Mr Hui has decided to retire from the position of Managing Director of MPFA in August 2003. His departure will be a great loss to the organization. However, we are fortunate, and grateful that he has laid down such a solid foundation and clear directions for his successors. We would like to convey our sincerest wishes to him for a happy retirement.

I would like to thank my fellow Management Board members as well as the members of its supporting committees for their hard work and assistance in steering the MPFA and laying down policies and guidelines in various aspects of management and operation. I am also deeply grateful to the MPF Schemes Advisory Committee and the Industry Schemes Committee who have given valuable advice on the proposals to enhance the effective operation of the MPF System and to improve the operation of the Industry Schemes.

My sincere appreciation also goes to the staff of the MPFA, who have shown their commitment and dedication by discharging their duties in a zealous manner. I am confident that the MPFA will continue to work as a cohesive team in meeting the future challenges of regulating the MPF System and perfecting its operations.



Charles Lee Yeh-kwong

Chairman