

Chairman's Statement



David Wong
Chairman

During the public consultation on retirement protection by the Commission on Poverty in the first half of 2016, there was much discussion and debate over retirement protection in Hong Kong.

At the Organisation for Economic Cooperation and Development ("OECD")/International Organisation of Pension Supervisors ("IOPS") Global Forum on Private Pensions held for the first time in Hong Kong in November 2016, overseas experts further highlighted that given population ageing, low economic growth and a low-interest-rate environment, how to provide adequate pensions is a challenge common to all countries.

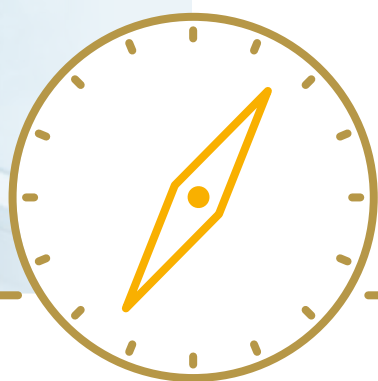
The increasing burden of providing for the aged is best addressed by a system of shared responsibility, including a private contributory pension system, government support, community and social support, and other private savings. This concept of diversified resources, inherent in the World Bank's multi-pillar model, assures the sustainability of a retirement protection system.

Being a privately managed mandatory contributory system, the MPF System has a critically important role to play as part of the broader framework of retirement protection in Hong Kong.

HOW WE FARE

The MPF System has been performing its functions in helping the working population prepare for their retirement and accumulate retirement wealth. From its inception to March 2017, the MPF System achieved an annualized return of 3.5% (net of fees and charges), exceeding the corresponding inflation rate of 1.8% over the same period.

In dollar terms, as at the end of March 2017, the System accumulated \$701.17 billion in total assets, including \$541.27 billion in contributions (net of amounts withdrawn) and \$159.9 billion in investment returns (net of fees and charges). There is no doubt that the System has added value to scheme members' retirement savings.



Chairman's Statement

STRENGTHENING MPF

As pointed out by international experts during the Global Forum, Hong Kong has a more developed mandatory, privately managed contribution system for retirement protection than many other countries in Asia, and what we have to do is to fine tune it. This is indeed what MPFA has been doing to the MPF System all along.

Just to name the most recent initiatives, the Default Investment Strategy ("DIS") is launched to address the issues of high fees and difficulty of making fund choices. Another one is the study of a preliminary conceptual model for the eMPF as part of our long-term goal to standardize, streamline and automate the administration of MPF schemes.

All these help strengthen MPF as an important pillar in the overall retirement protection framework.

BENEFITTING SCHEME MEMBERS

A predominant theme of these developments, and of many initiatives pursued over the years, is to bring better benefits to scheme members.

MPF is mandatory in nature and basically covers all employees and self-employed persons in Hong Kong. The MPFA as the regulator, as well as those who operate MPF schemes, has the social responsibility to help scheme members attain better retirement protection. We are always mindful of this when mapping out reform initiatives.

Lower fees

For the first time, a cap is imposed on the fees of MPF funds. The cap for DIS funds makes available low-fee options to scheme members. It will also have a benchmarking effect, enhancing competition among MPF funds and bringing about further fee reductions.

With scheme administration standardized, simplified and automated and operating costs reduced after the ultimate launch of eMPF, there will be greater room for fee reduction and consequentially better returns for scheme members.

Convenient management

The DIS, a simple, fee-controlled investment strategy, removes much of the hassles of choosing and managing MPF investments. We believe the automatic, age-dependent de-risking approach of the DIS will benefit scheme members, especially those who find it difficult to make investment choices, by offering an MPF portfolio with a balanced risk-return profile throughout members' working life. Designed to be consistent with the objective of building up long-term retirement savings, the DIS is also a low-cost option for those who actively choose how to invest their MPF in mixed assets strategy.

The concept of eMPF involves a centralized electronic platform for all MPF-related transactions. While we are aware that moving to eMPF will take some time, our ultimate aim is to allow employers and scheme members to deal with MPF matters more conveniently and efficiently, and provide members with more flexibility and better quality services.

Greater transparency

Transparency serves to enhance competition, raise awareness and facilitate informed decisions. The Fee Comparative Platform and Trustee Service Comparative Platform introduced a few years ago have been providing information to help scheme members in their decision-making process.

This approach of openness and transparency underlies the launch of the DIS. A DIS fund list setting out all information about the DIS offered under different MPF schemes is made available to facilitate making choices and comparison. DIS-related documents, including amended offering documents and relevant notices to scheme members, are available on trustees' dedicated webpages.

Chairman's Statement

We also publish the results of our studies and research to enhance transparency and for education purposes. As part of our investment education programme, an analysis of the correlation between fees and performance as well as other parameters of MPF funds was shared at a press conference in November 2016 to highlight the factors to be considered in making MPF decisions.

Through these efforts, it is believed that scheme members would better understand the MPF System and MPF investment, and be encouraged to better manage their accounts.

In a wider context, the sharing of findings of MPFA's research and statistical analysis, such as the analysis of MPF benefits held by scheme members and the statistics on claims for offsetting severance payments and long service payments against MPF, raises the public's awareness of the issues and encourages informed discussions among stakeholders. Such data can assist policymakers in their planning and decision making, contributing to better retirement protection for our working population.

CLOSING

The DIS is the brainchild of my fellow Management Board members. Also, the initiation of the eMPF concept and the development of the preliminary conceptual model for the eMPF infrastructure owe much to their great insight and wise guidance. I must thank them for the relentless efforts they have made over the years to make possible the smooth development of these important initiatives.

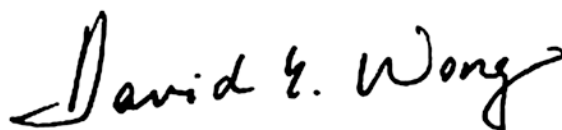
I am most reluctant to bid farewell to non-executive directors Hon Ip Kwok-him, Ms Paddy Lui, Dr John Poon and Mr Philip Tsai, whose term expired in March 2017. They have contributed significantly to the formulation of MPFA's strategies and the development of its key initiatives. The Board has benefitted greatly from their sharp acumen and sound judgment.

In taking forward many important projects, we are fortunate to have the advice of the MPF Schemes Advisory Committee and the MPF Industry Schemes Committee. They give invaluable comments and draw the Board's attention to relevant issues of concern.

I would like to thank, in particular, the retiring members of the two committees, and welcome the newcomers who joined us during 2016-17.

Over the last few years, the industry has worked with MPFA in developing and designing the DIS. This is a complex and technical task. Careful planning and concerted efforts were made to launch the DIS as soon as possible after the completion of the legislative process. In this respect, I wish to express my appreciation of the professional efforts and contributions of the trustees and the investment management industry.

Finally, my sincere appreciation goes to the entire staff of MPFA who, under the capable leadership of Managing Director Mrs Diana Chan, put in tremendous efforts in pursuing many significant initiatives with enthusiasm and professionalism. I am especially grateful to Mr Darren McShane, Chief Regulation & Policy Officer, who has retired from the Board, for his 15 years of dedicated service and his valuable contributions to the development of the MPF System in Hong Kong.



David Wong Yau-kar
Chairman