

Managing Director's Review and Outlook

The MPF System, Pillar 2 of the multi-pillar retirement protection system¹ adopted in Hong Kong, is well-regarded internationally. As a regulator tasked with supervising the MPF System, we understand that the System needs ongoing refinement.

When announcing its plans in early 2017, the Government asserted that the multi-pillar retirement protection system should continue, and that the MPF pillar will be enhanced through various measures.

The Government's vision is to have an MPF System that is valued and trusted by Hong Kong people with the ultimate aim of achieving "one member, one account" for effective management of retirement savings.

We are very much encouraged by these plans, as they affirm our efforts in the past and set a clear direction, which aligns with our current tasks, for us to strive for a better MPF System in the coming years.

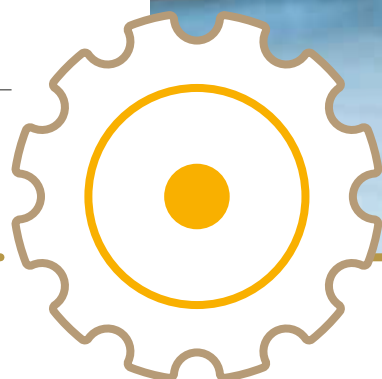
MAKING MPF BETTER

We made a submission to the Commission on Poverty in 2016 on its public consultation on retirement protection, responding to MPF issues and emphasizing the role of MPF. As pointed out in the consultation document and underlined in our submission, the stronger the MPF System becomes, the less reliant the working population will be on a publicly-funded retirement protection pillar.

Since its inception in 2000, the MPF System has been refined and reformed constantly. Twenty legislative exercises were concluded between 2001 and 2016 and could be categorized into four broad themes: enhancing and protecting scheme members' interests; reducing the costs of the System; addressing concerns over the adequacy of MPF; and improving MPF investment rules.

We will persist in our efforts to foster sustainable development of the MPF System in the interest of the working population. Our major initiatives in hand are in line with some of the measures mentioned by the Government, and we will give full support to other related measures on the Government's blueprint.

¹ Adopting the World Bank's multi-pillar approach, Hong Kong's retirement protection system has four pillars comprising a social security system (Pillar 0), the MPF and other occupation-based retirement savings schemes (Pillar 2), voluntary savings (Pillar 3), as well as public services, family support and personal assets (Pillar 4).





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Managing Director

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The DIS

With overwhelming support at the Legislative Council, the new legislation providing for the introduction of a DIS was passed smoothly on 26 May 2016.

We launched the DIS on 1 April 2017. Its launch helps standardize the default investment arrangements among MPF schemes and address concerns of high fees of and difficulty in making choices among MPF funds.

Having completed the preparatory work with the industry, we set out codes and guidelines and oversaw the implementation of the DIS. We will continue to monitor trustees' service and compliance standards, and educate the public on the DIS.

eMPF

According to a study in 2012, there are over 30 million administration transactions processed in the MPF context each year. Small employers and self-employed individuals represent over 90% of the total employer population in the MPF System, posing challenges to the industry's ability to move away from manual and paper-based processing.

We have been constantly making efforts to increase the reliability, accuracy and operational efficiency of the MPF System. We rolled out measures to standardize, streamline and automate MPF scheme administration, and mapped out long-term reform initiatives to simplify and centralize scheme administration processes.

A significant initiative in the pipeline is the development of infrastructure and processes to centralize MPF scheme administration functions as well as to standardize, streamline and automate processes.

We have developed a preliminary conceptual model of the infrastructure and processes, and completed a feasibility study on an "Administration Master" model that would best exemplify the conceptual model.

The Government is forming a working group jointly with MPFA, which will involve the industry, to steer and monitor the development and implementation of the "Administration Master", and to identify and monitor execution of measures to promote digital take-up by users. The MPFA will work closely with the Government in this respect.

Offsetting arrangement

The Employment Ordinance allows employers to use contributions made for employees under retirement schemes to offset severance payment and long service payment payable ("offsetting arrangement"). With MPF in place, MPF contributions made by employers have also been used for this purpose. The resultant leakage from the MPF System has become a contentious issue.

The Government now intends to progressively abolish the offsetting arrangement. We welcome the Government's initiative and will actively cooperate in executing the new policies on this front.

Adequacy issue

The adequacy of retirement income hinges on the amount we set aside for saving.

Mandatory MPF contributions are limited by the minimum and maximum relevant income levels. There is a mechanism for us to review these levels regularly. A new round of review is in progress. Subject to a number of factors and legislative process, the levels may be adjusted to better reflect changes in the earnings distribution of the working population and to ensure a reasonable amount of contributions for retirement-saving purposes.

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A relatively low rate of MPF contribution is another issue. We consider that there is room for increasing MPF contributions and welcome the Government's proposal to increase the total contribution rate gradually to a target of at least 15% in the long run to better meet the individuals' retirement needs.

Post-MPF

The Government mentioned its plan to study the feasibility of a public annuity scheme to help the elderly manage longevity risk. The Hong Kong Mortgage Corporation Limited subsequently announced its proposal to offer a life annuity scheme from 2018. We welcome such new financial tool, which allows MPF scheme members to convert their MPF assets upon retirement into a steady stream of retirement income.

In connection with this development, we will study how the withdrawal arrangements of the MPF System could better tie in with annuity schemes.

CHALLENGES AHEAD

How to provide income security for the elderly in an ageing world is a common challenge in many jurisdictions.

We are well aware of the key issues confronting the MPF System, such as how to maximize its functions, how to provide MPF products at a reasonable price, how to improve MPF funds' performance and how to structure the payout phase in a way that best meets the objectives of a retirement savings system.

The enhancements of the MPF System over the years aim to address these issues. Statistics show that MPF does add value to scheme members' retirement savings and meets the World Bank's parameters for helping address old age poverty locally.

Trustees' governance

MPF is a mandatory system to help the working population save for retirement. Also, it is a privately managed system and therefore, good governance arrangements of MPF trustees are crucial to safeguarding the interests of scheme members.

In this regard, we are making efforts to enhance trustees' governance standards and compliance culture. We aim to heighten the accountability of trustees' governing boards and promote awareness of their obligations, so as to drive better culture and conduct within the institutions to better serve the needs of scheme members.

Fees and returns

Fund performance is affected by the cycles of the financial markets which can be very volatile at times. The year of 2017 will be another challenging year for the financial markets.

Lower fees can have a significant favourable impact on long-term investment outcome. Fees of MPF funds are getting lower gradually. The fee control under the DIS is the first time that statutory fee caps are imposed on MPF funds. Within three years after the launch of the DIS, we will, together with the Government, review the fee cap levels with an aim of lowering them further.

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Public sentiments

The MPF System, as a social programme, requires community support for its sustainable development. Clearly, we face challenges in gaining the public's buy-in to MPF.

There is a general impression among the public that MPF investment returns to date are not as expected and fees of MPF funds are high. In fact, the investment performance of the MPF System as a whole relates closely to scheme members' fund choices. To achieve good retirement saving outcomes, scheme members should also play their part to understand how to make informed MPF decisions and actively manage their MPF accounts.

Public education and enhanced disclosure of MPF information are our key tools to help scheme members manage their MPF investments effectively. We will continue to enhance and deepen the public's understanding and acceptance of the MPF System, and remain attentive to scheme members' needs and views in improving the System.

Financial sustainability of the organization

Given the indispensable role of the MPF System in retirement protection, MPFA's financial health is important for sustaining its efforts in achieving its mission. In the absence of a stable source of income, we are now relying on primarily investment incomes from a one-off Capital Grant to meet our expenditure requirements. Investment incomes are, however, subject to market fluctuations and are not reliable as an income source.

In 2016, we consolidated our offices and moved out from a prime commercial district to Kwai Chung to reduce premises expenses. Without compromising our public services, we will continue to pursue measures to reduce cost as far as possible.

On top of our efforts in exercising stringent fiscal discipline, we are pursuing proposals to increase income, including invocation of the statutory annual registration fee, to achieve financial sustainability.

VOTE OF THANKS

I would like to express my gratitude to the Chairman, members of the Management Board, the chairmen and members of the related committees and working groups, as well as the MPF Schemes Advisory Committee and the Industry Schemes Committee. They all rendered us valuable support and insightful guidance in achieving an important milestone, the DIS, during the year.

A number of members retired in the year. I would like to express my deep appreciation for their enormous contributions, wise counsel and staunch support over the years. I also wish to extend a warm welcome to all the newcomers to the Management Board and the two advisory committees.

My heartfelt thanks go to my colleagues at MPFA for their dedicated service and relentless efforts in pursuing corporate objectives and goals.

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Our Chief Regulation & Policy Officer, Mr Darren McShane, left us this year to return to his home country in Australia after 15 years of exemplary service. He has made invaluable contributions to the development of the MPF System and the organization as a whole. I would like to record my sincere thanks to him for his dedicated service.

I must also thank the other financial regulators who worked closely with us in supervising the MPF industry. Last but not least, I appreciate the industry's cooperation and support in implementing the various initiatives to make MPF better for the working population in Hong Kong.



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