

Chairman's Statement

Under the MPF System, scheme members accumulate savings for their retirement through MPF schemes operated by trustees. We have often emphasized that trustees are fiduciaries and have the duty to act in the best interests of scheme members.

As the regulator overseeing the operation of the MPF System, MPFA is similarly mindful of how the System is run in the best interests of scheme members and creates value for them.

Asset Growth

The year 2017 has been fruitful for investors. In line with the performance of the capital market, MPF investments recorded an overall return of 14.9% (net of fees and charges) for the financial year 2017-18, the third highest since the inception of the MPF System in December 2000.

For the period from 1 December 2000 to 31 March 2018, the annualized rate of return (net of fees and charges) of the MPF System as a whole was 4.7%, higher than the 1.8% annual inflation rate over the same period.

As at the end of March 2018, total assets in the MPF System amounted to \$856.69 billion, including \$588.64 billion of contributions (net of amounts withdrawn) and \$268.05 billion of investment returns (net of fees and charges). In other words, about one-third of the total assets under management is investment returns. There is no doubt that the MPF System has added value to scheme members' retirement savings.

Financial Inclusion

Looking beyond the figures, we will notice that the MPF System has brought about changes in the Hong Kong community.

By mandating contributions to registered schemes, the MPF System helps the workforce develop investment discipline and set aside small sums regularly for their retirement reserves.

While quality products in the retail market are hardly accessible to individuals with only small sums to invest, the MPF System has made this possible – the small amounts of MPF savings contributed by many scheme members are pooled together and invested into quality markets and diversified portfolios through stringently regulated financial products managed by major financial institutions.

The contributions and their investment returns are accumulated over time to provide basic retirement protection. Furthermore, through managing their MPF accounts and with the benefit of education on retirement investment, scheme members acquire basic investment knowledge, which they may apply in managing and growing their other investments.





David Wong
Chairman

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When small savers are given access to quality investment products and equipped with basic investment skills, fund investment and asset accumulation for retirement is no longer a privilege of high asset individuals.

Adding Further Value

To add further value to scheme members, the most important thing is to help them grow their savings. This has been and will remain the key objective of MPFA's work.

Fees

Fee level is a factor that directly affects savings outcomes. All other things being equal, the lower the fees, the higher the net returns.

MPFA has pursued a range of initiatives to help bring down the level of fees through better working of market forces and streamlined administrative processes. MPF trustees have introduced various levels of fee reductions, benefiting millions of MPF account holders.

As a result, the average fund expense ratio, a measure of the total level of expenses incurred in investing through an MPF fund, has dropped by 25% to 1.54% over the past 10 years.

The fee-controlled Default Investment Strategy (DIS), launched on 1 April 2017, makes available a simple and low-fee retirement solution to scheme members. The fee cap, working through market forces, will likely place further downward pressure on fees of MPF funds.

Meanwhile, we are working on a blueprint for a centralized electronic platform to support the scheme administration of all MPF trustees. With scheme administration simplified and automated, user experience enhanced and operating costs reduced after the launch of this platform, there will be greater room for fee reduction and consequentially better returns for scheme members.

Returns

Another key factor affecting the value of savings is investment returns. It is true that investment returns depend a lot on market performance and are often beyond the control of the investing public. Nevertheless, trustees can play a part in safeguarding scheme members' interests in this respect.

Trustees can help by offering investment products with risk-return profiles suitable for retirement investment. Their decision in picking diligent, well-performing asset managers can make a significant difference to a retiree's income over an investment period of several decades. Their ongoing monitoring of fund performance is also essential. Actions should be taken if a fund shows consistently poor performance, including replacing the fund manager.

As a regulator, MPFA spares no efforts in supervising trustees for the proper discharge of their duties, spearheading the development of a robust governance culture and the provision of value-for-money products and services, and advocating the importance of putting scheme members' interests first. The messages were conveyed through a programme of regulatory visits to and meetings with trustees and was reiterated at a Governance Workshop held in October 2017. Trustees further pledged their commitment to a Governance Charter in May 2018, and will be given more guidance in this regard going forward.

Account management

The returns of retirement savings are also dependent on the decisions made by scheme members. In choosing the funds they would like to invest in, scheme members should take account of various factors, including their age and risk tolerance level.

The Fund Performance Platform newly launched in February 2018, together with other tools available on MPFA's website, provides comprehensive fund information to help scheme members review funds from different perspectives to see whether the selected funds suit their retirement needs.

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During the investment period which often spans decades, scheme members should bear in mind that MPF is a long-term retirement investment and that they should not focus on short-term market fluctuations. By attempting to time the market, they may risk selling low and buying high.

In addition to MPFA's investment education efforts, I have launched a blog on MPFA's website since March 2018 to communicate directly with scheme members and the public at large. I will use the blog to share my thoughts on various issues related to MPF, enhance public understanding of the MPF System, and share some tips on MPF management.

Increasing Inflow and Reducing Outflow

With a modest contribution rate of 5% each from the employer and the employee which is further subject to a cap, MPF savings have always been considered inadequate for retirement. The situation is aggravated when the employer's portion is offset against severance payment or long service payment.

I am therefore glad that the Government has expressed its determination to abolish the offsetting arrangement. This will ultimately stop the leakage from the MPF System and retain the full amount of MPF savings for retirement.

MPF is designed to provide basic retirement protection for scheme members. We have all along encouraged scheme members to save more on top of their mandatory contributions to boost their retirement savings. The Financial Secretary's proposal on tax concessions for MPF voluntary contributions is therefore most welcome. With this incentive, I hope that scheme members will set aside more for their MPF savings pot.

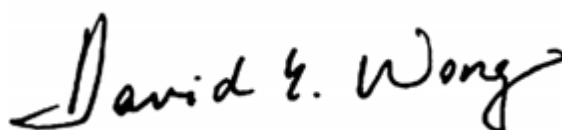
Acknowledgements

In mapping out policies and strategies in the best interests of scheme members, I am fortunate to have the wise guidance and strong commitment of my fellow Management Board members. The valuable advice and staunch support of the MPF Schemes Advisory Committee and the MPF Industry Schemes Committee are also indispensable.

During the year, the industry contributed significantly to various initiatives, including the implementation of DIS and the planning for the eMPF platform, and provided valuable comments on a number of proposals. I am most thankful to them for their professional efforts and unwavering support.

My sincere appreciation goes to the staff of MPFA who, under the capable leadership of Managing Director Mrs Diana Chan, put in another year of dedicated hard work and relentless efforts.

Having served MPFA for over 18 years, Mrs Diana Chan will be retiring in mid-2018. She has played a crucial role in steering MPFA and the MPF System through good and bad times. Under her leadership, many significant reforms of the MPF System were rolled out, resulting in greater transparency, lower fees, expanded employee control over their MPF investments, and availability of a ready-made investment solution suitable for long-term retirement savings. I would like to express my heartfelt thanks to Mrs Chan for her dedication and enormous contributions over the years, and wish her happiness in her retirement.



David Wong Yau-kar
Chairman