

A SNAPSHOT OF THE MANDATORY PROVIDENT FUND (MPF) SYSTEM

The MPF System came into operation on 1 December 2000 as the second pillar of the multi-pillar retirement protection framework in Hong Kong to help the workforce set aside savings for basic retirement needs.

Multi-pillar Retirement Protection Framework in Hong Kong

Pillar	World Bank's Multi-pillar Framework ¹		Retirement Protection in Hong Kong
0	Non-contributory, publicly financed and managed system	⇒	<ul style="list-style-type: none"> • Old Age Allowance • Old Age Living Allowance • Comprehensive Social Security Assistance Scheme
1	Mandatory, contributory and publicly managed system	⇒	Not applicable
2	Mandatory, privately managed, fully funded contribution system	⇒	<ul style="list-style-type: none"> • MPF System • Schemes governed by the Occupational Retirement Schemes Ordinance (ORSO)² – MPF exempted³
3	Voluntary savings	⇒	<ul style="list-style-type: none"> • ORSO schemes • Voluntary contributions to MPF • Retirement savings-related insurance • Qualifying Deferred Annuity Plan
4	Informal support, other formal social programmes and other individual assets	⇒	<ul style="list-style-type: none"> • Public housing and healthcare • Public transport fare concession • Community Care Fund's elderly programmes • Life Annuity Programme and Reverse Mortgage Programme launched by the Hong Kong Mortgage Corporation

The global trend of pension reforms is towards the development of second pillar systems to cope with an ageing population as government revenues are becoming less able to finance retirement promises. MPF is in line with the global trend.

¹ In the World Bank's 1994 report, "Averting the Old-Age Crisis: Policies to Protect the Old and Promote Growth", a three-pillar approach was recommended to protect the aged. In 2005, in the light of operational experience, the World Bank expanded the three-pillar framework into a five-pillar framework.

² ORSO schemes are retirement schemes set up voluntarily by employers to provide retirement benefits for their employees.

³ ORSO schemes which are granted MPF exemption.

Major Features of the MPF System and Key Figures



Mandatory
(except for exempt persons⁴)



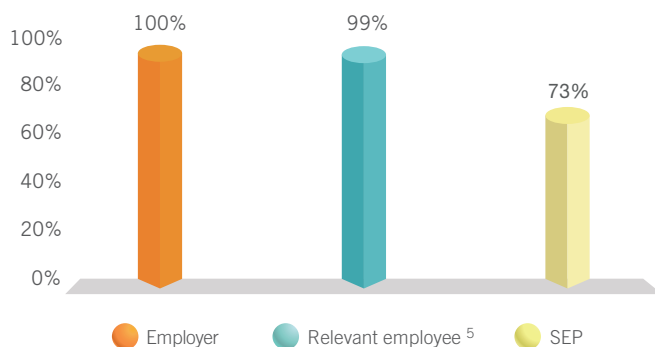
Employment-based

Except for exempt persons, employees and self-employed persons (SEPs) who are at least 18 but under 65 years of age are required to join an MPF scheme.

Key figures

High enrolment rate

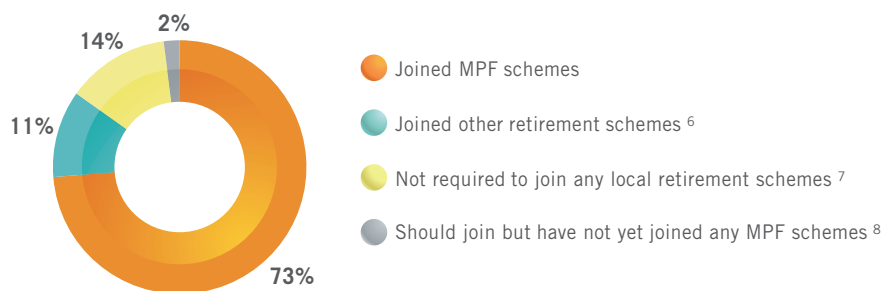
Enrolment rates of MPF schemes (31.3.2020)



Estimated figures.

High coverage – 84% of employed population is covered under retirement schemes.

Employed population by type of retirement schemes (31.3.2020)



Percentages may not sum up to 100% due to rounding.

⁴ Exempt persons who are not required to join an MPF scheme, including domestic employees, self-employed hawkers, people covered by statutory pension or provident fund schemes, such as civil servants and subsidized or grant school teachers, members of ORSO schemes which are granted MPF exemption, persons from overseas who enter Hong Kong for employment or self-employment for not more than 13 months or who are members of retirement schemes of a place outside Hong Kong, and employees of the European Union Office of the European Commission in Hong Kong.

⁵ Relevant employees are employees of 18 years of age or over and below retirement age of 65.

⁶ Other retirement schemes include statutory pension for civil servants and subsidized or grant school teachers and ORSO schemes.

⁷ Exempt persons and employees and SEPs who are below 18 or over 65 years of age are not required to join any local retirement schemes.

⁸ Employees and SEPs who have not yet enrolled in any MPF schemes as at 31 March 2020, probably because they were still within the first 60 days of employment or becoming self-employed.

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Assets managed under trust

MPF schemes are managed and maintained under trust by MPF trustees. MPF assets are under the safe custody of qualified custodians and are kept separate from those of employers, MPF trustees and other service providers.

This minimizes the risk of loss or misappropriation of pension assets before they are withdrawn by scheme members.



Fully funded



Defined contribution



Privately managed

The MPF System is financially sustainable by nature:

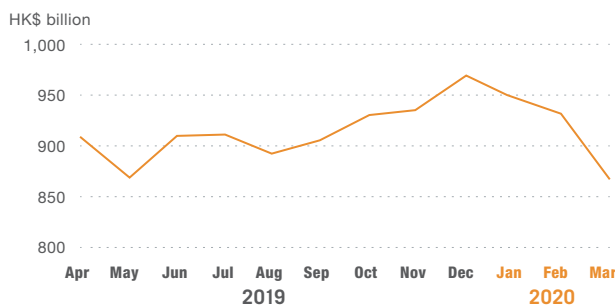
- It is independent from government revenue or public finance
- It has sufficient assets to meet accrued benefits payable to scheme members

Key figures

The net asset value of all MPF schemes was \$868 billion at end of March 2020. About \$695 billion (80%) was MPF contributions (net of amount withdrawn) and over \$173 billion (20%) was net investment returns.

Among the total MPF contributions received in 2019-20, about \$16 billion (20%) was made voluntarily.

Net asset value of MPF schemes (2019-20)



Growth of MPF assets (1.12.2000 – 31.3.2020)



Given a high concentration of MPF assets in equities (about 60% of total assets at end of March 2020), the performance of MPF funds fluctuated in line with the cycles of the overall financial markets which were highly volatile in the year.

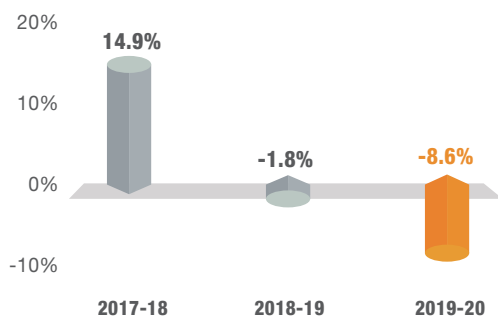
MPF is a long-term investment and can take advantage of the dollar-cost averaging mechanism to smooth out the effect of short-term market fluctuations over a long horizon.

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The overall return of the MPF System mirrors the conditions of the financial market and scheme members' collective investment choices among the MPF fund types.

Scheme members' investment decisions have a bearing on their MPF savings outcomes which are reported in their Annual Benefit Statements.

Annualized rate of return ⁹ (net of fees and charges)



Since inception of the MPF System (1.12.2000 – 31.3.2020): 2.6%

⁹ The return of the MPF System was calculated by way of the internal rate of return (IRR), a method commonly known as dollar-weighted return. The IRR method, which takes into account the amount and timing of contributions into and benefits withdrawn from the MPF System, was used as it better reflects the features of cash inflow and outflow of the MPF System. The annualized IRR was calculated by raising the monthly IRR to the power of 12.