

**MPFA submission to the Commission on Poverty's  
public consultation on retirement protection**

**Media briefing**

**8 June 2016**

Key points

***Introduction***

1. The Commission on Poverty (CoP) launched a six-month public consultation on retirement protection last December.
2. The Mandatory Provident Fund Schemes Authority made its submission to the CoP on the consultation document, and uploaded the submission to the MPFA website earlier today (8 June).
3. The consultation document examines a number of issues in relation to retirement protection in Hong Kong. Our submission elaborates on our views mainly in relation to the MPF System. I now invite our Chairman to introduce the key points in the submission.

***Key points in the MPFA submission***

The MPFA supports the multi-pillar retirement protection approach

4. The World Bank advocates a multi-pillar retirement protection framework:
  - Pillar 0 : a non-contributory, publicly financed and managed system;
  - Pillar 1 : a mandatory, contributory, publicly managed system;
  - Pillar 2 : a mandatory, privately managed, fully funded contribution system (the MPF System in Hong Kong);
  - Pillar 3 : voluntary savings; and
  - Pillar 4 : informal support, other formal social programmes and other individual assets.
5. The MPFA strongly agrees with the consultation document's recommendation that "Hong Kong should continue to adopt the multi-pillar model in providing diversified sources to deliver retirement savings and income, to be complemented by a range of public services".
6. In fact, no single pillar can address the retirement needs of all members of society.

7. Each of the pillars can be influenced by changes in political, social, fiscal or economic circumstances.
8. All pillars have to work together to supplement and complement each other.
9. The CoP has reviewed retirement protection systems in different places which have been undertaking reforms, and found that more and more places have established the second pillar – mainly privately managed, mandatory, occupational contributory systems operated in the form of individual accounts. In Hong Kong, the MPF System is an important part of Pillar 2.

The MPF System is an important pillar

10. We agree with the consultation document that the MPF System plays an important role in the overall retirement protection system in Hong Kong.
11. The MPF System has been performing its function of helping the employed population save for retirement:
  - ✧ It is estimated that before the MPF System was implemented, only about one-third of Hong Kong's employed population (about 1.1 million) was covered by any sort of occupational retirement protection scheme. Now, 85% of Hong Kong's employed population (about 3.2 million) is covered by the MPF System or some other form of retirement scheme.
  - ✧ As at the end of March this year, the total asset size of the MPF System reached almost \$600 billion, almost \$100 billion of which was net investment returns.
  - ✧ The MPF is an individual savings account arrangement under which all the accrued benefits belong to the contributors themselves. None of their benefits are used to subsidize others, exemplifying the concept of "one supporting oneself".
12. The MPF is an important part of employees' retirement savings. People who otherwise might have accumulated little or nothing for retirement now have savings (including contributions made by their employers) put aside to support them when they retire.
13. However, we have to emphasize that an average working life is around 40 years. The MPF System has been implemented for only 15 years and is still in its development stage. It takes 40 years for the System to mature and only after such a period can we see the magnitude of the benefits that such a system can produce. When the System matures, its function of providing retirement protection can hardly be taken up by other pillars. One reason for this is that the coverage of the System is very high. The second reason is that employers and

employees must contribute a specific amount according to the law; and irrespective of the Government's financial condition, employees will always be able to withdraw their own MPF from their accounts upon retirement.

14. The consultation document quotes the following example. If an employee whose monthly salary is \$15,000 (roughly the median income of the employed population) makes contributions from the age of 25 to 65, during which there is no pay adjustment in real terms or "offsetting" arrangement, his MPF benefits, using an annualized internal rate of return of 1.6% after discounting for inflation, will be around \$1 million upon retirement at the age of 65. If we divide the amount into monthly payments based on the average life expectancy of persons aged 65, this person will have a monthly income of about \$4,200 (male) or \$3,500 (female) after retirement from his or her MPF savings.
15. This sum is similar to the monthly payment of \$3,230 in the simulated options in the consultation document and mentioned in other retirement protection proposals. It shows that the MPF can indeed provide basic retirement protection for employees.
16. The MPFA also agrees with the consultation document that the stronger the MPF System becomes, the less reliant our working population will be on the publicly funded social security pillar when they retire.
17. The MPF System is indeed an integral part of retirement protection in Hong Kong. It cannot and should not be replaced by any of the other pillars.

Strengthen the MPF System to provide a stronger retirement protection function
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18. We agree with the CoP's view that the long-term goal should be to strengthen the MPF pillar to supplement the other pillars and to better perform its retirement protection function. The MPFA will adopt the following strategies:
  - (a) Resolve the problems of high fees and difficulty of making fund choices by implementing the Default Investment Strategy
19. The MPFA agrees with the consultation document that efforts should continue to be made to reduce fees. Although the average MPF Fund Expense Ratio went down from 2.1% in December 2007 to 1.57% in May 2016, representing a 25% drop, there is still a gap between the existing fee levels and the general expectation of scheme members.
20. Reducing fees will continue to be one of the MPFA's priorities. The MPFA will study and introduce different measures to make further room for fee reductions.

21. Under the MPF System, scheme members have to make investment decisions. Over the years, the MPFA has done a lot of work in investment education. However, some members still find it hard to have a good understanding of investment, or have no interest in learning about it at all.
22. To tackle the problems of “high fees and difficulty of making fund choices”, the MPFA will soon launch the Default Investment Strategy (DIS). This is a simple, fee-controlled investment strategy for MPF members, designed to be consistent with the objective of building up long-term retirement savings. The relevant amendment bill was passed by the Legislative Council about two weeks ago (26 May). We are working at full speed with the Government and trustees with a view to launching the DIS in the first half of 2017.

**(b) Dealing with apathy about MPF information and account management by stepping up publicity and education**

23. The MPF is an important part of scheme members’ retirement savings. The MPFA has carried out different publicity and education activities to encourage members to take good care of their MPF and to manage their accounts. The MPFA will further step up its work in this area to deepen and broaden the public’s understanding and acceptance of the System.
24. To tie in with the launch of the DIS, the MPFA will roll out a large-scale three-stage publicity campaign.
  - ✧ Stage one (starting from this June). The campaign will highlight the key messages of MPF investment (such as the MPF is a long-term investment and that retirement investment shall adopt the strategy of de-risking in terms of age) and the importance of managing MPF accounts. Scheme members will be reminded to update their account information, especially their contact details, so that the trustees will be able to send them the relevant information in a timely manner.
  - ✧ Stage two (three months before the launch of the DIS). The campaign will introduce the features of the DIS in detail and remind scheme members that if they do not make any fund choices when enrolling in MPF schemes, their MPF will be invested according to the DIS. Scheme members can also choose to invest according to the DIS.
  - ✧ Stage three (in the six months following the launch of the DIS). This stage of the campaign will remind scheme members that if they have not made an investment choice, they will be sent a special notice informing them they will have the opportunity to make fund choices. If the members do not reply, their MPF will be transferred from the previous default arrangement to the DIS.

(c) Addressing cumbersome and costly MPF scheme administration by exploring eMPF

25. Currently, the market has 36 MPF schemes provided by 15 trustees and there are also almost 9 million accounts in the MPF System. Among these, about 3.8 million are contribution accounts with regular contributions from employers and employees. A 2012 consultancy study estimated that 65% of the 30 million scheme administration transactions processed in the System were paper-based or executed via cheques. According to our rough estimate, there are about 100,000 transactions that require manual intervention each day. The System obviously relies very heavily on manual transactions. It is therefore not very efficient and has high operating costs.
26. Apart from taking measures to enhance fee transparency and create more room for fee reductions, the MPFA will propose to the Government that more fundamental reforms be considered to standardize, simplify and automate MPF scheme administration. The MPFA has developed a preliminary conceptual model of an electronic infrastructure (tentatively called “eMPF”) which seeks to lower the operating costs of MPF providers, allow employers and scheme members to deal with various MPF matters more conveniently and efficiently, and provide scheme members with more flexibility and better-quality services.
27. Moving to an eMPF system, however, will not be a simple or quick process. The MPFA will continue to work on this as our next key reform initiative.

(d) Full portability

28. Implementing full portability is the MPFA’s long-term objective and the electronic infrastructure to be developed will facilitate full portability.

Other issues

29. There are often concerns expressed that the amount saved under the MPF System is limited and not enough to meet retirement needs. First of all, as mentioned just now, the MPF is designed to assist the working population of Hong Kong to accumulate savings only for basic retirement protection; it is intended to be only one of the sources of income after retirement. It is not intended to meet all the retirement needs of everyone. The MPFA agrees with the following three suggestions set out in the consultation document:

(a) Exploring the idea of raising the contribution rate at an opportune time

30. The consultation document says increasing the contribution rate may add to the benefits that scheme members can get upon retirement. If the consultation outcome indicates general acceptance by stakeholders that the MPF System should provide more benefits than the current settings would provide, the MPFA would support exploring the idea of raising the contribution rate at an appropriate time.

(b) Addressing the offsetting issue

31. The controversial severance payment/long service payment (SP/LSP) offsetting arrangement is one of the focuses of the consultation document.
32. We are very concerned about the problem of benefits leakage from the MPF System due to the offsetting arrangement, which goes against the MPF's retirement savings objective and thus weakens its retirement protection function.
33. The MPFA is of the view that the issue of SP/LSP offsetting needs to be addressed by the Government. Since the SP/LSP offsetting arrangement is a Government policy involving labour relations, the MPFA supports the efforts of the Government to find a solution to deal with this contentious issue.

(c) Encouraging voluntary savings

34. MPF voluntary contributions savings can provide a channel for accumulating voluntary savings and strengthening the retirement protection function of Pillar 3.
35. MPF voluntary contributions and special voluntary contributions have gone up significantly in recent years, indicating that more and more employers and employees recognize the merits of the MPF in helping scheme members accumulate retirement savings.
- ✧ Voluntary savings made by employers, employees and self-employed persons increased to \$8.697 billion in 2015, three times the \$2.993 billion in 2006.
  - ✧ Special voluntary contributions increased to \$6.674 billion in 2015, 26 times the \$0.26 billion in 2006.
36. The MPFA agrees with the suggestion in the consultation document that the Government may provide tax concessions to incentivize people to increase voluntary retirement savings, including MPF voluntary contributions, for

themselves and their family members.

37. However, the efficacy of tax incentives under Hong Kong's simple, low-tax system should be considered. For example, the low-income group is generally outside the tax net and will not benefit from tax concessions.
38. The MPFA is of the view that the issue should be considered from the broader perspective of what types of incentives (e.g. deductions or co-contributions) and to which parties (employers, employees or self-employed persons) should be provided to effectively encourage further long-term retirement savings for those most in need.

#### | | |--------------------| | Concluding remarks | |--------------------|

39. The discussion on the future development of retirement protection will have a far-reaching impact on Hong Kong society. The MPFA hopes the different sectors will have a good understanding of the role and functions of the MPF System when discussing the way forward on this very important topic.
40. The MPFA believes that the MPF System should continue to be enhanced and supplemented by other retirement protection pillars to meet the challenges brought about by an ageing population, and that all pillars should work together to provide the entire population with comprehensive and adequate retirement protection.

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