

## **MPF Symposium**

### **“Privately Managed Retirement Schemes: Rethink & Refine”**

**29 October 2018**

**Opening Address**

**Dr David Wong Yau-kar**

**Chairman**

**Mandatory Provident Fund Schemes Authority**

The Honourable Bernard Chan, distinguished guests, ladies and gentlemen

Good afternoon.

2. On behalf of the Mandatory Provident Fund Schemes Authority (MPFA), I would like to express my warm welcome to all of you for joining this Symposium.

3. The Symposium is entitled “Privately Managed Retirement Schemes: Rethink & Refine”, a theme chosen mainly in light of the

challenges faced by the Mandatory Provident Fund (MPF) System. Today, we are very honoured to have distinguished speakers and panelists, including international and local experts in private retirement schemes, to share with us their opinions and insights about how to make these schemes work better.

4. The establishment of the MPF System was a breakthrough in the history of Hong Kong's social development. It was established after a 30-year, contentious debate on how to tackle retirement protection in the face of an ageing population and reflected consensus in society to make use of such a system to provide basic retirement protection for our workforce.

5. Last week, I attended the Global Forum on Private Pensions held in Beijing. With participation of some 50 private pension jurisdictions around the world, the Forum was jointly organized by the China Banking and Insurance Regulatory Commission, the Organisation for Economic Co-operation and Development, and the International Organisation of Pension Supervisors. How to make

good use of private pension systems to cope with the ageing population was at the heart of discussion during the Forum.

6. Based on my observations at the Global Forum, private pension systems in different parts of the world are facing similar challenges as those faced by MPF. Recognizing the pivotal role of private pension systems in retirement protection, pension regulators have all been endeavouring to find ways to make their systems work better. There are, however, no simple, one-size-fits all solutions and every government and its pension supervisory body must take into account local circumstances in its quest for the best private pension system for its jurisdiction.

7. While in Beijing, I also had the opportunity to meet with Central People's Government ministries and agencies. These meetings have further deepened my belief that providing income security for the elderly is a multifaceted task, touching upon a wide array of issues. We must also continuously refine and enhance the MPF System so as to optimize its value as a retirement saving

vehicle in a rapidly changing environment.

8. The MPF System made a head start by mandating participation and full contribution to schemes set up under trust. The World Bank developed an Outcomes Based Assessment Framework for Private Pensions (Framework) in 2016, which is an integrated strategy and assessment tool for diagnosis, policy making, monitoring and evaluation of a privately managed pension system. The Framework sets out five key ultimate outcomes of a pension system. These are:

- (i) efficiency;
- (ii) sustainability;
- (iii) coverage;
- (iv) adequacy; and
- (v) security.

According to the Framework, the MPF System is doing quite well. It is doing well in terms of coverage (the MPF schemes have covered 100% of employers and employees, and around 70% of self-

employed persons), security (in terms of safeguarding on members' assets and members' interests) and sustainability (it is fully funded, not subject to credit risks of either employer or sovereign), and is catching up in areas relating to adequacy and efficiency.

9. Regarding adequacy, the MPF mandatory contribution rates are set at a relatively low level to provide basic retirement protection. Contributions are further subject to the minimum and maximum relevant income (RI) levels.

10. The RI levels are reviewed regularly and adjusted when necessary to keep up with income changes of the workforce in Hong Kong. Adjustments to the RI levels are crucial for maintaining an appropriate amount of benefits for retirement saving purposes. The Government's proposal earlier this year to introduce tax incentives for voluntary contributions will be a positive development, helping to strengthen the adequacy offered by the MPF System.

11. Regarding the efficiency of the MPF System, we have, over the years, reviewed and improved the MPF legislation to streamline and simplify MPF scheme administration, enhanced disclosure and provided decision-making tools to scheme members so as to increase market competition, launched better solutions for retirement saving purposes, and worked with trustees to merge less efficient schemes and funds.

12. Our initiatives, coupled with the support of the industry, have driven down fees of MPF funds, resulting in a reduction in the average Fund Expense Ratio by 26% to 1.53% over the past 10 years.

13. As a privately managed retirement system, it is crucial to align the interests of MPF trustees with those of scheme members. In May this year, all 14 MPF trustees pledged their commitment to a Governance Charter advocated by the MPFA, recognizing the importance of good governance and fiduciary responsibilities in protecting the interests of scheme members and providing value for money services. Detailed principles are being developed to help

trustees to better align their strategies with the aims of acting in the best interests of scheme members and better value for money for members.

14. It is the MPFA's key focus area in the next few years to put in place a digital, flexible and user centric smart digital platform ("eMPF") to reform the existing mode of MPF operation and enhance user experience. Our objective is to apply the concept of "smart administration" to enable employers and scheme members to better manage their MPF through one central eMPF platform. Over the long term, it is anticipated to reduce overall administration costs of trustees and employers through open competition, more efficient infrastructure and processes, and simplified account management so as to make more room for further fee reduction and pave the way for future MPF reform.

15. With ongoing refinements of the MPF System, I hope that the System could provide scheme members with better retirement outcomes at the least cost.

16. At the Symposium today, we will have opportunities to learn about the latest developments of privately managed retirement systems in the global arena and hear the views and discussions of experts on possible ways to enhance retirement outcomes. Ms Alice Law, our new Managing Director who took up this challenging role this July, will also share with us her vision of the MPF System.

17. Now, it is my great pleasure to introduce our Guest of Honour, the Honourable Bernard Chan, Convenor of the Executive Council of the Hong Kong Special Administrative Region and a Hong Kong Deputy to the National People's Congress of the People's Republic of China. With his longstanding experience in social services and profound knowledge of MPF, I am sure that Mr Chan will give us insightful views on the topics today, and enlighten us on the ways for MPF to live up to public expectations.

18. Please join me in welcoming Mr Chan.