Mandatory Provident Fund Schemes Authority

Consultation Paper
Withdrawal of MPF Benefits

December 2011

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FOREWORD

We would like to invite interested parties to submit comments on the proposals discussed in this Consultation Paper to increase the flexibility of withdrawal of Mandatory Provident Fund ("MPF") benefits.

Comments should be submitted to the Mandatory Provident Fund Schemes Authority (the "MPFA") on or before 31 March 2012.

If you wish to comment on the proposals in the capacity of a representative of an organization, please provide details of the organization whose views you represent.

Please note that the names of the commentators and the contents of their submissions may be published by the MPFA in connection with any further discussion or consideration of the proposals. In this connection, please read the "Personal Information Collection Statement" attached to this Consultation Paper.

If you wish to make a submission but do not wish your name to be published by the MPFA, please state that you wish your name to be withheld from publication when you make the submission.

Comments may be sent through any of the following means:

By mail to:

Policy Development & Research Department
Mandatory Provident Fund Schemes Authority
Unit 1501A and 1508, Level 15
International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

Attention: Consultation on Withdrawal of MPF Benefits

By fax to: (852) 2259 8199

By email to: WDB@mpfa.org.hk

By phone: 1833 108 (voice mailbox)

Via MPFA website: http://www.mpfa.org.hk

A copy of this Consultation Paper may be found on the MPFA's website at http://www.mpfa.org.hk.

Mandatory Provident Fund Schemes Authority
Hong Kong

December 2011

PERSONAL INFORMATION COLLECTION STATEMENT

This Personal Information Collection Statement (the "PICS") is made in compliance with the requirements of Personal Data (Privacy) Ordinance, Cap. 486 (the "PDPO"). The PICS sets out the purposes for which your Personal Data[1] will be used following collection, what you are agreeing to with respect to the MPFA's use of your Personal Data and your rights under the PDPO.

Purpose of Collection

The Personal Data provided in your submission to the MPFA in response to this Consultation Paper may be used by the MPFA for one or more of the following purposes:

- in exercising the MPFA's statutory functions under the Mandatory Provident Fund Schemes Ordinance;
- for research and statistical purposes;
- for the purpose of this open consultation;
- for any other purposes directly related to the above purposes.

Disclosure of Personal Data

Personal Data provided in your submission on this Consultation Paper may be disclosed by the MPFA to members of the public (whether in Hong Kong or elsewhere), as part of the open consultation on this Consultation Paper. The names of persons who submit comments on this Consultation Paper together with the whole or part of their submission may be disclosed to members of the public. This may be done by publishing this information on the MPFA's website and in documents to be published by the MPFA during the consultation period, or at, or following its conclusion.

Access to Data

You have the right to request access to and correction of

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your Personal Data held by the MPFA in accordance with the provisions of the PDPO. Your right of access includes the right to obtain a copy of your Personal Data provided in your submission on this Consultation Paper. The MPFA has the right to charge a fee as permitted under section 28 of the PDPO for complying with any data access request.

Retention

Personal Data provided to the MPFA in response to this Consultation Paper will be retained for such period as may be necessary for the fulfillment of the aforementioned purposes.

Enquiries

Any enquiries regarding the Personal Data provided in your submission on the Consultation Paper, or requests for access to such Personal Data or correction of such Personal Data, should be addressed in writing to:

The Personal Data (Privacy) Officer
Mandatory Provident Fund Schemes Authority
Unit 1501A and 1508, Level 15
International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

GLOSSARY

Bequest	The money that one leaves to one's beneficiaries upon death.
Central Provident Fund ("CPF")	The retirement system operated by the CPF Board in Singapore.
Comprehensive Social Security Assistance ("CSSA")	The CSSA Scheme provides a safety net for those who cannot support themselves financially. It is designed to bring their income up to a prescribed level to meet their basic needs.
Decumulation	The process of converting the balance of retirement benefits into an income stream of the retiree.
Lump Sum Payment	A mode of payment that pays the entire amount of accumulated retirement benefits to the scheme member.
Medisave Account	One of the accounts under CPF, savings of which can be used for hospitalization expenses and approved medical insurance.
Minimum Pension Guarantee ("MPG")	MPG is a guarantee mechanism adopted in Chile aimed at providing a consumption floor for those who did not save for retirement or did so insufficiently.
Ordinance	Mandatory Provident Fund Schemes Ordinance (Cap. 485)
Ordinary Account	One of the accounts under the CPF, savings of which can be used to buy a home, pay for CPF insurance, investment and education.
Regulation	Mandatory Provident Fund Schemes (General) Regulation (Cap. 485A)
Retirement Age	Under the MPF System, retirement age, in relation to an employee or self-employed person, means 65 years of age. It is the statutory eligibility age at which a scheme

	member, whether still in employment (including self-employment) or not, can withdraw his/her MPF benefits without the need to meet other conditions.
Special Account	One of the accounts under CPF especially used for old age, contingency purposes and investment in retirement related financial products.

EXECUTIVE SUMMARY

1. The objective of MPF System is to assist the employed population of Hong Kong to accumulate retirement savings by means of contributions by both employers and employees, as well as self-employed persons.

2. The MPFA is the statutory body tasked with regulating and supervising the privately-managed MPF schemes. The prime objectives of the MPFA are to ensure compliance of employers and MPF service providers and protect the interests of the working population. The MPFA's functions also include considering and proposing reforms of the laws relating to MPF schemes or occupational retirement schemes. Issues which are beyond the statutory purposes of the MPF System are therefore outside the purview of the MPFA.

3. The MPF System has been in operation for just over 11 years. Since the inception of the MPF System in December 2000, the Government and the MPFA have been continuously working towards improving the System in the light of the experience gained from actual operations, comments from stakeholders and market developments.

4. In the light of operational experience gained and comments received over the past years, the MPFA has also carried out a review of the regulation of withdrawal of MPF benefits, including the modes of payment of MPF benefits on retirement as well as grounds for early withdrawal of MPF benefits. <u>In this Consultation Paper, MPF benefits only refer to those derived from mandatory contributions</u>, as benefits derived from voluntary contributions are not subject to the withdrawal restrictions in the MPF legislation.

5. At present, scheme members reaching age 65 may withdraw their MPF benefits immediately or on a later date, but the withdrawal must be made in a lump sum. Before reaching age 65, MPF benefits may only be withdrawn early under the following circumstances specified

in the Ordinance:

(a) Early retirement;

(b) Permanent departure from Hong Kong;

(c) Death;

(d) Total incapacity; and

(e) Small balance account.

6. Regarding the modes of payment of MPF benefits on retirement and early retirement, we **propose** to allow flexibility and leave the choice to scheme members. Scheme members would be able to choose to withdraw their MPF benefits in a lump sum or gradually. No particular payment mode would be mandated. For members who choose a phased withdrawal approach, there would also not be any minimums or maximums prescribed in the MPF legislation in relation to withdrawal frequency or amount. Please refer to Chapter 4 for details of the proposal.

7. Regarding grounds for early withdrawal of MPF benefits, we **propose** to introduce an additional ground allowing early withdrawal where a scheme member is certified to have an illness that would likely reduce the person's remaining life expectancy (hereunder referred to as "terminal illness"[1]). Certification by recognized medical professional(s) would be considered as adequate evidential support for such application. Please refer to Chapter 5 for details of the proposal.

8. We welcome views from interested parties on the two proposals set out above and discussed more fully in Chapters 4 and 5 of the Consultation Paper. Interested parties are invited to write to us on or before 31 March 2012.

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1 "Terminal illness" refers to an illness that is life endangering, such that the remaining life expectancy of the individual will be reduced to a specified period, and the specified period will end before the retirement age of 65. The length of remaining life expectancy to be specified in the definition of "terminal illness" is one of the issues we would like to invite responses from interested parties (Consultation Question 5). For reference, under the Superannuation retirement system of Australia, remaining life expectancy of 12 months is used in the definition of "terminal medical condition", a condition which allows the scheme member concerned to withdraw his/her superannuation benefits before attainment of retirement age.

CHAPTER 1 INTRODUCTION

Purpose

9. This consultation document sets out proposals on the modes of payment of MPF benefits on retirement and the grounds for early withdrawal of MPF benefits.

Background of MPF System

10. Implemented from 1 December 2000, the MPF System is still a relatively young retirement system. The MPF System has a short history. However, the issue of retirement protection has been a subject of extensive debate in Hong Kong since the 1960s.

11. A number of different retirement systems had been put forward and discussed in the legislature and the community over several decades. There were different views on which type of retirement system could best suit the needs of Hong Kong.

12. In 1994, the World Bank published a report entitled "Averting the Old Age Crisis" that recommended a three-pillar model for old age protection. The three pillars were:

(a) a mandatory, publicly managed and tax-financed pillar to alleviate old age poverty;

(b) a mandatory, privately managed and fully funded contributory pillar to carry out the saving function for all income groups within the population; and

(c) voluntary occupational or personal saving plans as the third pillar to provide additional protection for people who want more income and insurance in their old age.

13. Analyzing the situation in Hong Kong based on the World Bank three-pillar model, it was noted that Hong Kong had been operating a Comprehensive Social Security Assistance Scheme to offer basic social security to the needy, including the elderly. Furthermore, the Hong

Kong population was known to have a high personal savings rate. There was support for the introduction of the MPF System as the second pillar of retirement protection, so that Hong Kong would have in place all three pillars recommended by the World Bank. As a result, the broad legislative framework for the MPF System was enacted by the Legislative Council in 1995. As one of the pillars to retirement protection, the MPF System is only meant to help the workforce save for retirement and support part of their retirement needs.

14. The MPF System is a mandatory retirement saving system. The savings are segregated for <u>one single purpose - retirement only</u>. Understanding that the working population would also have other needs and some might have preference for other saving or investment vehicles, the contributions to the MPF System are kept at a relatively low level. Employees, employers and self-employed persons are each required to contribute at 5% of relevant income. Furthermore, there is also a maximum level of relevant income set at $20,000 per month[2], and no contribution is required of relevant income over the $20,000 threshold. The relatively low contributions are intended to facilitate the working population using the rest of their income for satisfying other needs and/or saving or investing through other preferred means for meeting future needs.

15. Given the very modest contribution rate under the MPF System and the existence of the maximum relevant income level beyond which no mandatory contribution is required, the benefits from mandatory contributions accrued over an entire work life of some 45 years would, in many cases, not, of itself, provide adequate retirement income security. This is in line with the World Bank three-pillar model in that retirement income for retirees should be funded from a combination of MPF savings, extra personal savings and social security (for the needy).

16. As mentioned before, the MPF System is intended to serve

[2] The Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 3) Notice 2011 was passed by the Legislative Council on 23 November 2011. The monthly maximum relevant income level will be increased from $20,000 to $25,000 with effect from 1 June 2012.

the sole purpose of helping the workforce save for retirement and the contribution rate under the MPF System is modest. Grounds for early withdrawal are therefore relatively limited to ensure that a certain level of retirement protection is available for those who reach retirement in Hong Kong.

Background of Review

17. The MPFA is the statutory body established, inter alia, to regulate and supervise MPF schemes. The prime objectives of the MPFA are to ensure compliance of employers and MPF service providers and the smooth operation of the MPF System to protect the interests of the working population. According to section 6E of the Mandatory Provident Fund Schemes Ordinance (Cap. 485) ("Ordinance"), one of the functions of the MPFA is to consider and propose reforms of the law relating to occupational retirement schemes or MPF schemes. The present review is conducted in discharge of this function. However, it is pertinent to note from the outset that old-age protection raises a wide range of issues and some of them are beyond the statutory purposes of the MPF System. Whilst the MPFA endeavours to consider all relevant matters in the discharge of its statutory role and functions, issues arising from old-age protection that are outside the purview of the MPFA cannot be considered or dealt with by the MPFA alone.

18. The MPF System was formally launched in December 2000. During the initial implementation stage of the MPF System, attention was focused on the accumulation phase and the creation of an administratively reliable and efficient retirement system. As such, the Government and the MPFA have been continuously working towards improving the System in the light of the experience gained from actual operations, comments from stakeholders and market developments. To date, there has been less focus on the withdrawal phase, as the amount available for withdrawal would likely be relatively small during the initial start-up period. In the long-run, however, both the accumulation and decumulation phases are equally important if the System is to achieve the goal of providing retirement protection.

19. In addition, comments and suggestions have been raised at various times over the past 10 years that the criteria for withdrawal of MPF benefits should be relaxed such that MPF scheme members could withdraw their MPF benefits to meet needs that are considered to be more urgent or immediate. Repeated economic turmoil in the past decade had caused contractions in the employment market from time to time. Some members whose employment had been terminated ran into financial difficulties and wanted to get access to their MPF benefits for meeting their short-term financial needs. There have also been comments that the accumulated benefits should also be allowed to be used for buying homes or paying for medical or educational expenses for the members as well as their immediate family members.

20. In view of the above, the MPFA considered it appropriate to review the present System concerning the modes of benefits payment allowed at retirement and whether new grounds for early withdrawal of MPF benefits should be added to the existing legislative framework to cater for the evolving needs of the scheme members.

21. In this connection, the MPFA has conducted a review on the existing requirements relating to the withdrawal of MPF benefits in the legislation and studied statistics on withdrawal of MPF benefits to understand the current situation. The MPFA has also carried out a review of records of the legislature to identify the intention and policy regarding the existing mechanism on withdrawal of MPF benefits and made reference to the experience of overseas countries on withdrawal of retirement benefits. Various options have been analyzed in terms of their consistency with the MPF purpose as well as their feasibility.

CHAPTER 2 CURRENT REQUIREMENTS

Mode of Payment on Retirement

22. Regulation of withdrawal of MPF benefits is set out in section 15 of the Ordinance and Part XIII of the Mandatory Provident Fund Schemes General Regulation ("Regulation"). Since the MPF System is introduced to help members of the workforce save for their old age, the starting proposition is that scheme members can only claim for payment of their MPF benefits when they attain the "retirement age" of 65. Section 15(1) of the Ordinance provides that a member of an MPF scheme who has attained the retirement age shall be entitled to be paid by the approved trustee of the scheme his entire accrued benefits in a lump sum. Retirement age is defined in section 2 of the Ordinance to mean, in relation to an employee or self-employed person, 65 years of age.

23. It should be noted that in this context, the term "retirement age" refers to the age on attainment of which a scheme member becomes eligible to claim MPF benefits, and is not necessarily tied to employment or retirement per se. In other words, scheme members who have attained the age of 65, regardless of whether they are still working or not, may withdraw the benefits accrued from mandatory contributions in their MPF schemes in a lump sum.

24. Currently, sections 15(1) and (2) of the Ordinance give members the right to be paid the entire amount of accrued benefits in an MPF scheme in a lump sum. Although there is no explicit legislative requirement that scheme members who reach the retirement age of 65 must necessarily withdraw the MPF benefits in a lump sum upon their reaching of the retirement age, only lump sum payment is provided for under the existing governing rules of all MPF schemes.

Early Withdrawal of Accrued Benefits

25. In addition, in recognition of special circumstances justifying earlier withdrawal, the law also allows withdrawal of MPF benefits by

scheme members in limited circumstances[3]. A summary is set out below, with further details available in Annex A.

(a)	**Early retirement**	A scheme member who has attained age 60 and certifies to the approved trustee of the scheme by statutory declaration that he has permanently ceased his employment or self-employment is eligible to withdraw his MPF benefits.
(b)	**Permanent departure from Hong Kong**	A scheme member may be paid his MPF benefits on the ground that the member has departed, or is about to depart, from Hong Kong permanently. Proof of permission to reside permanently elsewhere must be produced and the ground of permanent departure can only be used as a ground for withdrawal of benefits once in a person's lifetime.
(c)	**Death**	When a scheme member has died, the approved trustee of the scheme must pay the member's MPF benefits to the member's personal representatives.
(d)	**Total incapacity**	A scheme member may withdraw his MPF benefits on the ground of total incapacity. Total incapacity is defined in relation to the kind of work that the scheme member was last performing before becoming totally incapacitated. The claim must be certified by a registered medical practitioner or a Chinese medicine practitioner.
(e)	**Small balance account**	A scheme member may withdraw his MPF benefits if: (i) the amount of benefits does not exceed $5,000; (ii) the member does not intend to

[3] Apart from the 5 circumstances under which accrued benefits can be withdrawn early by scheme members, it is recognized that accrued benefits may also be accessed before reaching retirement age in case a scheme member becomes entitled to a severance payment or a long service payment under the Employment Ordinance (Cap. 57). Further details are set out in Annex A.

become employed or self-employed within the foreseeable future;

(iii) as at the date of claim, at least 12 months have elapsed since the contribution day in respect of the latest contribution period for which a mandatory contribution is required to be made; and

(iv) the member does not have any accrued benefits kept in any other MPF schemes.

26. Under the MPF System, payment of benefits derived from voluntary contributions is governed by the governing rules of the MPF scheme concerned, which generally provide more flexibility in withdrawal. As such, the scope of our review covers, and the proposals apply to, withdrawal of benefits derived from mandatory contributions only which are governed by the Ordinance and the Regulation.

CHAPTER 3 REVIEW OF CURRENT REQUIREMENTS

Methodology

27. In addition to reviewing records of the legislature to identify the intention and policy regarding the current regulation of withdrawal of MPF benefits and studying the current requirement, we have also examined relevant trends and statistics.

28. Literature review of academic and empirical output prepared by both local and overseas organizations has also been conducted in order to make reference to the experience of overseas countries on withdrawal of retirement benefits. Reference has also been made to the modes of withdrawal of retirement benefits and grounds for early withdrawal of retirement benefits in overseas countries. Particular reference has been made to the situation in Australia, Chile and Singapore. Australia and Chile were chosen as they have relatively mature second pillar retirement savings systems that are structured in a way that is broadly similar to the MPF System. Singapore is also considered as it is often used by local commentators as a comparison point notwithstanding that it is an entirely different type of system.

29. The MPFA has then considered various options to improve the regulation of withdrawal of MPF benefits, having regard to operational experience, comments received, policies adopted by regulators of overseas jurisdiction and the special features or characteristics of the MPF System.

Trends & Statistics

30. According to the latest population projections (2010 - 2039) by the Census and Statistics Department, the percentage of persons aged 65 or above is projected to rise markedly from 13% in 2009 to 28% in 2039. Correspondingly, the median age would rise from 40.7 in 2009 to 47.6 in 2039.

31. We also note that there is an increasing number of elderly

people who, for various reasons, live on their own and not with their children. Future retirees may no longer be able to rely on their children to the same extent as today's or past retirees. Financial support from younger generations to the elderly is also on a decreasing trend. Viewed thus, it is more likely than not that future retirees will be under greater pressure to plan and pay for their golden years. Further, with higher educational background and better health, future retirees may also wish to pursue a more active lifestyle and will therefore require more retirement savings.

32. Private savings and investment are expected to play a more important role in retirement income in future as a result of the expected decline in family support. The decumulation process of MPF benefits will become more important for the current and future generation of retirees.

33. The following table[4] shows the amount of mandatory contributions received and benefits derived from mandatory contributions paid under the MPF System in the past few years:

(HK$ million)

Year	Mandatory Contributions Received	Benefits Paid
2008	30,137	4,149
2009	38,928*	5,163
2010	31,982*	5,486

* includes $8.41 billion of net special contributions injected by the Government into the MPF accounts of eligible scheme members in the period of March 2009 to December 2010.

34. In 2010, amongst the ground of retirement and the 5 grounds for early withdrawal, benefits withdrawn on the ground of permanent departure comprised the largest portion (50%), followed by benefits withdrawn on the ground of retirement (including early retirement) (41%). Only small amounts of benefits were withdrawn on the grounds of death,

4 Under the MPF System, payment of benefits derived from voluntary contributions is governed by the governing rules of the MPF scheme concerned. As such, the scope of our review covers withdrawal of benefits derived from mandatory contributions only which are governed by the Ordinance and the Regulation.

total incapacity and small account balance (9%).

International Experience

35. The MPFA has studied the schemes governing withdrawal of retirement benefits in Australia, Chile and Singapore in detail. The key features of the withdrawal regulations of Australia, Chile and Singapore are summarized in the paragraphs below, while more detailed information is provided at Annex B. However, it is important to bear in mind that the schemes and practices of other countries being studied and discussed here are for reference only. Whilst they are of good reference value, the schemes and practices of overseas retirement systems would not be completely suitable or applicable to Hong Kong due to differences in various aspects between Hong Kong and these overseas countries, e.g. social security system, taxation system, demographic and economic profile, savings habit of the population, etc.

36. Australia does not prescribe the mode of payment of retirement benefits. Early withdrawal of retirement benefits is allowed only under specific circumstances, namely, specified compassionate grounds, severe financial hardship, permanent and total disability, terminal illness, having preserved benefits balance of A$200 or less, or permanent departure from Australia. Although the current contribution rate of the superannuation system in Australia at 9% is similar to that of Hong Kong, the contribution caps imposed are very different. In Hong Kong, for a monthly-paid employee, both employer and employee contributions are capped at $1,000 each month. In other words, the annual maximum mandatory contributions of an employee amount to $24,000. In Australia, the annual maximum superannuation contributions of an employee in 2011-12 amount to A$15,775.20 (or about HK$124,624 based on exchange rate of A$1.0 to HK$7.9), which is about 5 times the amount applicable to Hong Kong. The Australian government also implements a co-contribution scheme for the low or middle-income earners and provides tax incentives to encourage additional contributions to be made into the superannuation system for workers' retirement protection. These differences, amongst others, would need to be taken into account when comparing the Australia

superannuation system with the MPF System in Hong Kong.

37. In Chile, the main options for retirement payouts are either a programmed withdrawal or a life annuity (or both). Early withdrawal is permitted only if the accumulated balance exceeds a prescribed amount or if the member becomes disabled.

38. While the MPF System is frequently compared with the Central Provident Fund ("CPF") of Singapore, there are certain fundamental differences between the two systems that must be borne in mind. As stated above, the MPF System in Hong Kong is intended to provide a certain level of retirement protection only, as opposed to comprehensive retirement benefits. On the other hand, the CPF of Singapore is a multi-purpose social savings scheme and not solely a retirement scheme. Total employer-cum-employee contribution rate to the CPF is 36% for most of the workforce. The contributions are allocated into three separate accounts earmarked for different purposes. The "Medisave" account is for medical purpose, the "Special" account is for retirement purpose, while the "Ordinary" account has a more general purpose and benefits may be used for home purchase, education and insurance.

39. On reaching age 55, CPF contributions cease and a scheme member must set aside a "CPF Minimum Sum" of S$131,000 (from July 2011 to June 2012) in a "Retirement" account and a "Medisave Required Amount" of S$27,500 (for 2011) in the "Medisave" account. Excess benefits may then be withdrawn in a lump sum. CPF scheme members must participate in the Lifelong Income Scheme ("LIFE") unless their "Retirement" account balance is less than S$40,000. LIFE provides scheme members with a monthly income for as long as they live, with the payment amount determined by the "Retirement" account balance.

40. CPF savings may be withdrawn early in case of death, permanent incapacity in relation to any employment, permanent departure from Singapore, and severe medical conditions certified to reduce life

expectancy.

Consideration of Modes of Payment of Benefits

41. The current mode of payment of MPF benefits is in the form of a lump sum. Lump sum payment is most appropriate when the amount of retirement benefits is small. Lump sum payments are fully flexible and provide complete liquidity, allowing people to dispose of and allocate their funds as they wish. It also facilitates retirees leaving bequests to family members in circumstances where they have sufficient funds.

42. Given that a scheme member, on average, will still have about 20 years' lifespan after reaching age 65, the member will have to manage the lump sum amount received over these 20 years. If too much is spent in the initial years, the member may not have enough savings left for the remaining years. If the member is too cautious, the quality of retirement life may be adversely affected unnecessarily. We consider it necessary to consider other payment options that may effectively deal with the dilemma and the different risks faced by the scheme members upon retirement.

43. The economic downturn and the sharp drop in stock prices worldwide in late 2008 also prompted some demands from scheme members to relax the requirement that withdrawal of MPF benefits must be made in a lump sum on retirement so that retirees would not be forced to realize all their investment losses in one go in case they need to withdraw part of their accrued benefits for retirement use. Some scheme members may rather withdraw part of the MPF benefits to meet their short term urgent needs while keeping the remaining part of the benefits in the MPF scheme in the hope of earning a positive rate of return until the time when needs arise in future or the investment market has recovered.

44. In the review, the MPFA has considered the modes of lump sum payment, phased withdrawal and annuitization, as well as some

combinations of these modes. The issue of whether scheme members should be allowed to choose a mode most suitable for their own circumstances or a particular mode should be mandated or set as a default has also been considered.

45. The following set of guiding principles has been used to evaluate the different payment modes and the regulatory approach (prescriptive or flexible or somewhere in between):

Guiding Principles	**Interpretation**
Transparent	The regulations must be easily understandable for the average scheme member.
Facilitate innovation	The regulations must not impede, but encourage the creation of new products which satisfy the needs of the potential retirees in the best possible way, as well as keep pace with changes in the economy.
Encourage competition	The regulations should help the potential retirees to get the most for their money by encouraging competition between suppliers of payout products.
Long-term oriented	The regulations must be credibly long-term-orientated, and should not be affected by short-term social, economic or other factors.
Keep costs low	The costs of implementing the regulations should be proportional to the benefits the society receives from the regulations.

46. As the MPF System is still relatively young, the amount of accumulated benefits is still relatively low and because of the complexities associated with mandated annuities or payment streams, we

do not consider it appropriate to mandate a particular non-lump-sum mode of payment at this stage. Moreover, scheme members are not likely to welcome a proposal that will prevent them from getting access to accrued benefits on retirement and force them to keep the benefits with another financial services organization. We therefore propose to allow scheme members greater flexibility to choose their payment modes. By allowing more options, there should be more incentives for the financial services industry to develop a range of payout products to meet the needs of different individuals and more competition among service providers to keep the costs of payout products at a reasonable level. Details of the proposal are set out in Chapter 4 for comment.

Consideration of Additional Grounds for Early Withdrawal of Benefits

47. Over the years, the MPFA has received comments from scheme members that early withdrawal of MPF benefits should be relaxed to include various circumstances. In determining whether scheme member should be allowed early access to their MPF benefits on a specific ground, it is important to balance the potential advantages against the risk that scheme members may prematurely deplete their MPF benefits before retirement. The MPFA also recognizes that the MPF System is only one of the pillars for old age protection and it is neither a medical claim fund nor a social security scheme. While we are sympathetic to the situations of scheme members with financial needs, these scheme members may be better served by other means of assistance available in the community, particularly if the assistance is targeted at the need concerned, rather than relying on the MPF System which is meant for meeting part of their retirement needs.

48. In addition, we would also need to consider the feasibility of administration of such early withdrawal suggestions, the potential compliance and enforcement issues that may arise on the part of scheme members, MPF service providers, the MPFA or other parties, as well as the potential costs to the MPF System as a result.

49. A range of suggestions on additional grounds for withdrawal

of MPF benefits have been considered, including (but not limited to) illness that would likely reduce the scheme member's remaining life expectancy (hereunder referred to as "terminal illness"), critical illness of the scheme member or the member's immediate family, unemployment, home purchase, and education of the scheme member or the member's immediate family.

50. In considering the suggestions on grounds for early withdrawal of MPF benefits, we have made use of the following set of guiding principles to evaluate the different suggestions:

Guiding Principles	**Interpretation**
Transparent	The withdrawal criteria must be easily understandable for the average scheme member.
Straightforward	The withdrawal criteria and verification of the supporting documents should be straightforward to ensure consistent treatment as far as possible and to avoid abuse.
Permanent nature	Withdrawal of MPF benefits should be considered when old age protection for the scheme members in Hong Kong is no longer an important issue going forward, or the holding of an MPF account would no longer be beneficial to the scheme member.
Last resort	Early withdrawal of MPF benefits should not be allowed if there are other means to relieve the financial burden of the scheme member.
Long-term oriented	The withdrawal criteria must be credibly long-term-orientated, and should not be affected by short-term social, economic or other factors.

Guiding Principles	Interpretation
Keep costs low	Any document required as supporting evidence should be easily accessible and available at a low cost to scheme members and the costs of implementing the regulations should be proportional to the benefits the society receives from the regulations.

51. Of the range of suggestions on additional grounds for early withdrawal of MPF benefits considered, we propose to introduce the additional ground of "terminal illness" for now. Although the law currently allows early withdrawal on the ground of total incapacity, some scheme members with "terminal illness" may still be able to continue their employment and hence would not satisfy the requirements for early withdrawal on the ground of total incapacity. For these scheme members, the prospect of providing for an income after age 65 has lost its promise and preserving accrued benefits in MPF accounts for old age protection may no longer be relevant. Details of this proposal are set out in Chapter 5 for comment. In view of the relatively low level of contributions and the relatively small amount of accumulated benefits so far, it is not considered feasible nor practicable to try to use the MPF System to address different needs at this stage. The other suggestions considered but not taken on board at this stage are briefly discussed below.

Critical Illness

52. "Critical illness" is a term typically associated with a particular type of insurance policies. The reasons for acquiring this type of insurance coverage are that the associated medical procedures and treatment would be expensive, that the insured might not be able to work for a substantial period of time or permanently, or that the life expectancy of the insured might be substantially reduced. There is no universal definition or standard list of critical illnesses, and the coverage of insurance policies differs.

53. Unlike “terminal illness”, a critical illness is not necessarily one that is fatal and those scheme members who recover after treatment will still require retirement protection. Where a scheme member has a substantially reduced life expectancy due to a critical illness, the proposal to introduce an additional ground of “terminal illness” would be sufficient to address the situation. In case a scheme member can no longer perform the work that the member has been performing before the illness, early withdrawal is already allowed under the existing ground of total incapacity. The public hospital system generally provides medical treatment for the Hong Kong population at a reasonably low cost, and some assistance is available where the treatment is expensive and must be paid for by the patient. We therefore do not propose to allow a scheme member who has suffered a critical illness, but who recovers to the extent that the member is not incapacitated in any on-going way, to be entitled to withdraw the member’s MPF benefits as a consequence. As such, we do not recommend including critical illness as an additional ground for early withdrawal of MPF benefits at this stage.

54. Requests for early withdrawal of benefits in case of critical illness of an immediate family member are likely to be related to the expenses associated with medical treatment. While we are sympathetic to the situation of scheme members who need to bear substantial medical costs due to critical illness of their immediate family members, we should nevertheless bear in mind that the purpose of the MPF System should be for the accumulation of retirement savings for scheme members. Moreover, similar to the situation of scheme members with critical illness as discussed in paragraph 53 above, the public hospital system would provide medical treatment at a reasonably low cost and there are assistance schemes available. We therefore do not recommend including critical illness of an immediate family member as an additional ground for early withdrawal of MPF benefits for now.

Unemployment

55. The financial crises in the past decade had led to contractions in the employment market from time to time. Individuals who lost their

employment might run into financial difficulties, and some of these individuals had approached the MPFA requesting for early withdrawal of MPF benefits to meet their difficult circumstances.

56. During periods of unemployment, some scheme members would be able to rely on their own savings to support their living temporarily, while others might not have sufficient savings and would face financial difficulties. The latter group is more likely to wish to make use of their MPF savings during the unemployment period. Introducing some sort of means test to identify scheme members genuinely in need would raise definitional issues on eligibility and have ramifications on administration. In particular, allowing unemployed scheme members with financial hardship to get access to MPF benefits would raise an issue of how to define "financial hardship due to unemployment". Since there are different kinds and degrees of hardship, it would be difficult to find a workable objective test that would be broad enough to cover the circumstances of different individuals in need and yet stringent enough to prevent abuse. Although subjective tests may have their superficial attractions, they would not provide a workable resolution. Not only would any subjective tests require consideration of individual cases in detail and would add a substantial burden to the System both in terms of administration and costs, they are likely to generate differences of opinion and inconsistencies in treatment.

57. On the other hand, without any means test, if scheme members are allowed to withdraw MPF benefits whenever they are unemployed, some scheme members may use this ground to withdraw their MPF benefits regardless of whether they are in real need of their MPF savings. With such relaxation, almost anyone temporarily out of work would become eligible to withdraw their MPF benefits. Scheme members may easily be prompted to claim their MPF benefits after cessation of each employment (especially scheme members with low and intermittent incomes) and, as a result, scheme members may make frequent withdrawals during their working life and not accumulate any meaningful level of benefits for their retirement. The purpose of MPF is easily lost.

58. For the unemployed, what is most needed is a new job. In this regard, the Labour Department offers a range of employment support services and programmes to help the unemployed find work. For those who are unable to find a job and have run into genuine financial difficulty, the safety net of the Comprehensive Social Security Assistance Scheme ("CSSA") will provide the ultimate support to meet their basic needs. There are also programmes under the CSSA which aim to encourage and assist able-bodied persons aged 15 to 59 who are unemployed to move towards full-time paid employment and self-reliance.

59. Based on the above, we do not recommend allowing unemployed members to get access to their MPF savings at this stage. Our reference from overseas countries also shows that people in financial hardship due to unemployment usually rely on the social security system available in their countries to relieve their short term urgent financial needs rather than their retirement benefits, and retirement benefits are not generally regarded as funds available for stand-by relief of scheme members. Even for countries which have liberal benefits withdrawal policies, like Singapore, scheme members are not allowed to withdraw their retirement benefits early on the ground of unemployment.

<u>Home Purchase</u>

60. Occasionally, there have been voices that MPF scheme members should be allowed to use their MPF savings for home purchases, especially during recent years when the residential property prices have increased substantially. The CPF in Singapore is frequently cited as a retirement system that allows withdrawal for home purchase, and suggestions have been made that the MPF System should make reference to the CPF in this regard.

61. As noted in paragraph 38 above, the CPF is in fact a multi-purpose social savings system and not a sole-purpose retirement savings system. Retirement savings are kept in the "Special" account and such savings may <u>not</u> be used for home purchase. To cater for its various purposes, the total CPF contribution rate is 36% of earnings in general, which is more than 3.5 times the contribution rate under the MPF

System.

62. Hong Kong has adopted a different direction as the MPF System is designed to solely provide for retirement benefits for the workforce in Hong Kong, which explains why the MPF contribution rate is much lower. The Hong Kong approach is not to deal with financing home purchase through mandatory savings, which are kept moderate and designated specifically for retirement purposes. Allowing scheme members to withdraw their MPF benefits for home purchase would result in serious adverse effects on the retirement protection of scheme members. In general, assets in the form of a property cannot be readily turned into cash for supporting the living of scheme members in old age. The low MPF contribution rate is intended to allow members flexibility to use their remaining income freely to meet their other individual needs.

63. Moreover, given the low contribution rate in Hong Kong, even if early access to MPF benefits is available, the amount of MPF benefits available to younger scheme members may not be significant for the purpose of fully or partly meeting the down payment for a property. It may be more appropriate for scheme members to seek other sources of financial assistance to rearrange their financial situation rather than relying on their MPF benefits for purchase of residential properties. There is a range of mortgage products available in the banking market to meet the different needs of home buyers and the Chief Executive of the Hong Kong SAR has announced measures to help low and middle income families to achieve home ownership.

64. It should also be noted that MPF assets are statutorily restricted from investing directly in the property market due to concerns over valuations and liquidity. Allowing scheme members to withdraw their benefits to directly invest in a single piece of property may seem contradictory to the principle behind the imposition of this and other investment restrictions.

65. Based on the above, we do not recommend allowing scheme members to use MPF benefits for home purchase at this stage.

Education

66. There are also scheme members who would like to use their MPF savings for financing their own or their children's education. They also quote the CPF in Singapore as an example of a retirement system that allows scheme members to use their retirement savings for education purpose.

67. In Singapore, there is an education loan scheme under which CPF scheme members may use benefits in their "Ordinary" account to pay for their children's or their own tuition fees. The scheme member has to repay the amount withdrawn plus interest in cash subsequently. It should again be noted that benefits in the "Special" account designated for retirement <u>cannot</u> be used for the education loan scheme.

68. In Hong Kong, the Financial Assistance Scheme for Post-secondary Students already provides means-tested financial assistance to full-time students pursuing locally-accredited, self-financing post-secondary education programmes which will lead to a qualification at sub-degree level or above. The scheme aims to assist students in paying tuition fees, academic expenses and living expenses such that no eligible students are denied access to post-secondary education because of lack of means. There is also publicly-funded financial assistance in the form of grants and loans to students of different study levels from kindergartens to universities. Apart from the Financial Assistance Scheme for full-time students, the Continuing Education Fund also subsidizes adults with learning aspirations to pursue continuing education and training courses.

69. From the above, it seems that there are already other means to relieve the financial burden of scheme members in respect of their own or their children's education. Moreover, old age protection is still important for scheme members who wish to use MPF savings for education. As such, we do not recommend allowing scheme members to use MPF benefits for education purpose at this stage.

Concluding Remarks

70. In considering whether early access to MPF benefits should be allowed, it should be borne in mind that early withdrawal of MPF benefits would affect the eventual size of the retirement funds by not only the amount of the initial withdrawal but also the amount of investment return that would have been generated if the money had remained in the fund. Proposals have been developed in the light of the need to adhere to the principle of benefit preservation until attainment of age 65 and any early access of MPF savings should only be considered as the last resort when all other means have been exhausted or the need to further preserve the benefits is no longer important.

71. If a particular ground is to be introduced for early withdrawal of retirement benefits, the eligibility should be based on objective criteria as far as possible to ensure fair treatment. If early withdrawal of the MPF benefits of individual scheme members requires the exercise of administrative discretion, not only would there be time involved in the decision-making process, there would also be administrative costs for dealing with the discretionary claims. It should also be borne in mind that allowing withdrawal of MPF benefits for purposes other than retirement would render it even more difficult for members to accumulate adequate benefits for meeting needs in old age given the low contribution rate. Additional flexibility in early withdrawal has to be carefully weighed against the risk that members might withdraw too much too early and as a result forgo their own long-term interest.

72. In addition, early withdrawal, depending on the way it operates, may also give rise to greater complexity in scheme administration. This, in turn, may lead to higher administrative fees charged by service providers. Higher fees charged would reduce the amount of retirement benefits a scheme member may ultimately get when the member reaches retirement age.

73. Countries that allow extensive pre-retirement usages of accumulated savings, e.g. Singapore, require much higher contribution rates. In Singapore, different accounts are set up under the CPF for members to accumulate savings for meeting different needs. If it is considered appropriate or necessary for mandatory savings to serve other pre-retirement purposes, the consequential need for raising the contribution rate and setting up separate accounts to earmark the benefits accrued for meeting different needs could be considered. In view of the above, we do not recommend the options considered above as additional grounds for early withdrawal of MPF benefits at this stage.

Administrative Issues

74. As part of the review of the regulation of withdrawal of MPF benefits, the MPFA has also taken the opportunity to consider operational and administrative issues in relation to the 6 existing grounds for withdrawal of MPF benefits, with a view to making claims processes simpler for members and easier to administer. We have taken into account comments received from members of the public and trustees over the years. Some proposals have been developed for improving or fine-tuning the existing requirements. These proposals are more administrative or technical in nature, some involving only the amendment of guidelines or minor refinement of current legislative provisions, and hence are not covered in the scope of this consultation. The MPFA will make use of its existing arrangements to discuss these proposals with relevant stakeholders and take them forward.

CHAPTER 4 PROPOSAL ON MODES OF BENEFITS PAYMENT

75. We **propose** to recommend to the Government that the MPF legislation be amended to make it clear that scheme members who are entitled to withdraw their MPF benefits on the grounds of retirement or early retirement may be allowed the flexibility to choose the mode of withdrawal, whether in a lump sum or gradually in a manner that best suit their individual needs ("voluntary staged withdrawal"). Benefits not yet withdrawn from MPF schemes would continue to be invested in constituent funds chosen by the scheme members, allowing them to gain investment exposure after retirement.

76. For voluntary staged withdrawal, we propose that no minimums or maximums would be prescribed in the MPF legislation in relation to the withdrawal frequency as well as withdrawal amount. Scheme members would be paid benefits in a manner as agreed between the members and their MPF trustees. In addition to payment of part of the benefits on demand, for example, a scheme could allow for the payment of a fixed percentage of the benefits in an MPF account each year, or a fixed dollar amount each year. A scheme could also allow the scheme member to adjust the arrangement over time to suit the member's preference and needs. A wide variety of arrangements could be facilitated, subject to the governing rules of the MPF scheme concerned. It is expected that if the law is amended to facilitate flexibility, trustees will offer different arrangements to suit the needs of different scheme members.

77. The proposal would allow scheme members to withdraw their MPF benefits as and when they are in need of money. Retirees would be able to set aside money in years when financial needs are low and thus build up a cushion for future years, and the related ability to withdraw extra amounts when times are difficult. Allowing flexibility of withdrawal by scheme members should also foster a greater sense of personal responsibility and ownership of retirement benefits, allowing them to take into account their own preferences, levels of risk tolerance and other sources of wealth.

78. By allowing more options, there should be more incentives for the financial services industry to develop a range of payout options to meet the needs of different individuals and more competition among service providers to keep the costs of payout products at a reasonable level.

79. The proposal generally satisfies the guiding principles set out in paragraph 45 in the manner set out in the following table:

Guiding Principles	**Assessment**
Transparent	The concept that scheme members may choose to withdraw their MPF benefits gradually over their retirement years should be easily understood by scheme members.
Facilitate innovation	Since scheme members would have flexibility and control over the withdrawal of their MPF benefits, the market may respond by developing a range of payout products, including annuities, for investment by scheme members using the benefits withdrawn from the MPF System.
Encourage competition	As the terms of a voluntary staged withdrawal are determined between the scheme member and trustee concerned, the proposal would encourage competition amongst trustees on service and the variety and flexibility of withdrawal arrangements provided to members.
Long-term oriented	Voluntary staged withdrawal is considered suitable for scheme members in the long term, and is not introduced in response to short-term social, economic or other factors.

Guiding Principles	Assessment
Keep costs low	Voluntary staged withdrawal can be easily accommodated under the current MPF System, so that the cost of implementing the option should not be significant.

Consultation Questions – Voluntary Staged Withdrawal on Retirement

1. *Do you agree that scheme members on reaching retirement should be allowed to choose whether to withdraw their MPF benefits in a lump sum or gradually over their retirement years? If not, please explain your views.*

2. *If you support the proposal to permit scheme members to withdraw their MPF benefits gradually over their retirement years, do you agree that the withdrawal arrangement (e.g. frequency or amount per withdrawal) should be left to be agreed between the MPF trustee and the scheme member or some requirements (e.g. a minimum amount per withdrawal or a maximum number of withdrawals per year) should be prescribed in the legislation? If not, please explain your views.*

3. *Do you have any other views on permitting scheme members to withdraw their MPF benefits either in a lump sum or gradually over their retirement years?*

CHAPTER 5 PROPOSAL ON ADDITIONAL GROUND FOR EARLY WITHDRAWAL OF MPF BENEFITS – "TERMINAL ILLNESS"

80. We **propose** recommending to the Government that the legislation be amended to introduce an additional ground for early withdrawal of MPF benefits where a person is suffering from an illness that would likely reduce the person's remaining life expectancy (hereunder referred to as "terminal illness"[5]). For these scheme members, the prospect of providing for an income after age 65 has lost its promise and preserving benefits in MPF accounts for old age protection may no longer be necessary.

81. Allowing scheme members to withdraw their MPF benefits early on the proposed ground generally satisfies the criteria set out in paragraph 50 in the manner set out in the following table:

Guiding Principles	**Assessment**
Transparent	When administering claims on the "terminal illness" ground, approved trustees could adopt a similar administrative approach as that currently applicable to claims on the ground of total incapacity, which should be easy to understand by scheme members and MPF service providers.

5 "Terminal illness" refers to an illness that is life endangering, such that the remaining life expectancy of the individual will be reduced to a specified period, and the specified period will end before the retirement age of 65. The length of remaining life expectancy to be specified in the definition of "terminal illness" is one of the issues we would like to invite responses from interested parties (Consultation Question 5). For reference, under the Superannuation retirement system of Australia, remaining life expectancy of 12 months is used in the definition of "terminal medical condition", a condition which allows the scheme member concerned to withdraw his/her superannuation benefits before attainment of retirement age.

Guiding Principles	**Assessment**
Straightforward	A scheme member would be required to provide documentary proof issued by a recognized medical practitioner to the satisfaction of the trustee concerned that the member is entitled to payment of MPF benefits on “terminal illness” ground. The claim procedure should be relatively objective and straightforward.
Permanent nature	By definition, “terminal illness” is of a permanent nature.
Last resort	While MPF benefits should only be accessed for a non-retirement purpose as a last resort, in case a scheme member has a “terminal illness” that would substantially shorten life expectancy, preserving benefits in MPF accounts for old age protection may no longer carry much relevance.
Long-term oriented	Allowing early withdrawal on “terminal illness” is considered reasonable as old age protection may no longer carry much relevance to scheme members with “terminal illness”, and this ground is not introduced in response to short-term social, economic or other factors.
Keep costs low	As the claiming procedure will be similar to that of total incapacity under the existing withdrawal mechanism, the cost for implementing the option should not be significant.

82. In practice, we would further need to consider the definition of the proposed ground, the documentary evidence required, as well as the cap to be imposed on the withdrawal amount (if any).

83. For reference, in Australia, early withdrawal of retirement benefits is allowed if a scheme member has a terminal medical condition. By definition, a terminal medical condition exists if:

(a) two registered medical practitioners have certified jointly or separately that the scheme member suffers from an illness, or has incurred an injury, that is likely to result in the member's death within 12 months of the date of certification;

(b) at least one of the registered medical practitioners is a specialist practicing in an area related to the illness or injury; and

(c) the certification period has not ended for each of the certificates (a certificate is valid for 12 months from the date of certification and this is referred to as the certification period).

84. In order to be fair and to have a clear criterion to facilitate certification by medical practitioners, we would like to **seek comments** on the length of remaining life expectancy that should be used in the definition of "terminal illness". As set out in paragraph 83 above, Australia uses 12 months in its definition. In Hong Kong, insurance policies that cover terminal illness typically use 6 months or 12 months in the definitions. For early withdrawal of MPF benefits, should 6 months, 12 months or some other time period be used as the relevant period?

85. Regarding the number and qualification of medical practitioners for certifying "terminal illness", we would **seek comments** on whether certification that the scheme member is suffering from a "terminal illness" should be provided

- by one or alternatively two medical practitioners, and
- whether they may be either a registered medical practitioner or registered Chinese medicine practitioner[6], and
- whether further requirements on the qualifications of the practitioners (such as some relevant medical specialty)

6 "Registered Chinese medical practitioner" has the meaning assigned to it by section 2 of the Chinese Medicine Ordinance (Cap. 549).

should apply.

86. There have been known cases where some individuals certified as having a substantially shortened life expectancy did subsequently recover from the medical condition concerned and live for many years longer. In such cases, retirement protection may therefore still have relevance. There are hence views that the withdrawal amount should be capped, so that part of the benefits would still be retained in the MPF System for providing retirement protection should the scheme member recover in future. A number of caps, ranging from, say, 20% to 50% of benefits, could be considered. While imposing a cap would provide some back-up for those cases where a person recovers from the illness, this would also contribute to more administrative work and costs, and only relatively few scheme members might fall under this category. Imposing a cap would deny access to full benefits for all members including those who do not ultimately recover from the relevant illness.

Consultation Questions – Early Withdrawal of MPF Benefits on Ground of "Terminal Illness"

4. *Do you agree that a scheme member who suffers from an illness that is likely to reduce the life expectancy of the scheme member (hereunder referred to as "terminal illness"*) should be allowed to withdraw MPF benefits early? If not, please explain your views.*

5. *If you support the proposal of allowing early withdrawal on the proposed ground, do you think that the remaining life expectancy of 6 months, 12 months or some other time period should be used as the criterion for allowing early withdrawal? Please explain your views.*

6. *If you support the proposal of allowing early withdrawal on the proposed ground, do you think that certification that the scheme member is suffering from a "terminal illness" should be provided*
   - *by one or alternatively two medical practitioners, and*
   - *whether they may be either a registered medical practitioner or registered Chinese medicine practitioner, and*
   - *whether further requirements on the qualifications of the practitioners (such as some relevant medical specialty) should apply?*

   Please explain your views.

7. *If you support the proposal of allowing early withdrawal on the proposed ground, do you think that a cap on the withdrawal amount should be prescribed? If so, what would you suggest as an appropriate cap for the purpose?*

8. *Do you have any other views on permitting scheme members to withdraw their MPF benefits on the proposed ground?*

* "Terminal illness" refers to an illness that is life endangering, such that the remaining life expectancy of the individual will be reduced to a specified period, and the specified period will end before the retirement age of 65.

ANNEX A

EARLY WITHDRAWAL OF MPF BENEFITS

1. Withdrawal of MPF benefits is governed by section 15 of the Ordinance and Part XIII of the Regulation. The relevant legislative provisions and the criteria for early withdrawal under different grounds are set out below:

(a)	**Early retirement**	Section 15(2) of the Ordinance provides that a member of an MPF scheme who has attained early retirement age and certifies to the approved trustee of the scheme by statutory declaration that he has permanently ceased his employment or self-employment, shall be entitled to be paid his entire accrued benefits in the scheme in a lump sum. Early retirement age is defined in Schedule 7 to the Ordinance to mean 60 years of age for the purpose of section 15(2) of the Ordinance.
(b)	**Permanent departure from Hong Kong**	Section 163 of the Regulation provides that a member of an MPF scheme who, before reaching the retirement age, may be paid the accrued benefits on the ground that the member has departed, or is about to depart, from Hong Kong permanently. Proof of permission to reside permanently elsewhere must be produced and the ground of permanent departure can only be used as a ground for withdrawal of benefits once in a person's lifetime.
(c)	**Death**	Section 15(4) of the Ordinance provides that when a member of a registered scheme has died, the approved trustee of the scheme must pay the whole of the member's benefits as a lump sum to the member's personal representatives.
(d)	**Total incapacity**	Section 164 of the Regulation provides that a member of an MPF scheme may be paid

		accrued benefits on the ground of total incapacity. Total incapacity is defined in relation to the kind of work that the scheme member was last performing before becoming totally incapacitated. The claim must be certified by a registered medical practitioner or a Chinese medicine practitioner.
(e)	**Small balance account**	Section 165 of the Regulation provides that a member of an MPF scheme may be paid the accrued benefits if the member's accrued benefits in the scheme as at the date of claim for payment of those benefits do not exceed $5,000, but such a withdrawal is also subject to the following: (i) the member does not intend to become employed or self-employed within the foreseeable future; (ii) as at the date of claim, at least 12 months have elapsed since the contribution day in respect of the latest contribution period for which a mandatory contribution is required to be made; and (iii) the member does not have any accrued benefits kept in any other MPF schemes.

2. In addition to the above circumstances, if an employee becomes entitled to a severance payment ("SP") or a long service payment ("LSP") under the Employment Ordinance (Cap. 57)("EO"), and accrued benefit (excluding any part attributable to employee's contributions) is being held in an MPF scheme in respect of the employee, or has been paid to the employee, the SP/LSP may be offset against the aforementioned amount of benefits to the extent that they relate to the employees' years of service for which the SP/LSP is payable. The relevant provisions are sections 31I, 31IA, 31Y and 31YAA of the EO and section 12A of the Ordinance.

3. If an employer has paid a SP/LSP to an employee, the employer may apply to the trustee concerned for payment of the SP/LSP amount (capped by the amount of benefits derived from employer contributions).

4. If an employee is owed a SP/LSP by his employer, the employee may apply to the trustee concerned for payment of the outstanding SP/LSP amount (capped by the amount of benefits derived from employer contributions).

5. To the extent that the SP/LSP offset results in MPF benefits being withdrawn before the employee reaches retirement age, it does impact on the amount of benefits accrued under the MPF System for retirement.

6. The following table shows the amount of benefits derived from mandatory and voluntary contributions used for SP/LSP offsetting under the MPF System in the past few years:

(HK$ million)

Year	**Benefits derived from mandatory contributions**	**Benefits derived from voluntary contributions**	**Total**
2008	1,655	221	1,876
2009	2,262	325	2,587
2010	1,866	237	2,103

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ANNEX B

INTERNATIONAL EXPERIENCE IN ALLOWING EARLY WITHDRAWAL OF RETIREMENT BENEFITS

AUSTRALIA

1. Australia introduced a mandatory retirement savings scheme called the Superannuation in 1992. The contribution rate is at 9% of earnings payable by the employer[1].

2. Although the current contribution rate of the superannuation system in Australia is similar to that of Hong Kong, the contribution caps imposed are very different. In Hong Kong, for a monthly-paid employee, both employer and employee contributions are capped at $1,000 each month. In other words, the annual maximum mandatory contributions of an employee amount to $24,000. In Australia, the annual maximum superannuation contributions of an employee in 2011-12 amount to A$15,775.20 (or about HK$124,624 based on exchange rate of A$1.0 to HK$7.9), which is about 5 times the amount applicable to Hong Kong. The Australian government also implements a co-contribution scheme for the low or middle-income earners and provides tax incentives to encourage additional contributions to be made into the superannuation system for workers' retirement protection.

3. Early access to Superannuation benefits is allowed only under specific circumstances, namely, financial hardship, specified compassionate grounds, terminal illness, permanent departure from Australia, permanent and total disability, and when a member has a preserved benefits balance of A$200 or less.

Financial Hardship

4. To qualify for financial hardship withdrawal, the member must be receiving income support (e.g. social security benefit) from the

[1] The Australian Government plans to raise the contribution rate gradually from 9% to reach 12% by 2019-20.

government continuously for the last 26 weeks and the trustee of the superannuation fund is satisfied that the member is unable to meet reasonable and immediate family living expenses. The trustee may, in any 12-month period, release to the member one lump sum payment. The lump sum payment will be no more than a gross amount of A$10,000 and no less than A$1,000 (or the balance of the benefit if it is less than A$1,000).

Specified Compassionate Grounds

5. To qualify for application on specified compassionate grounds, members must satisfy the Department of Human Services that they do not have the financial capacity to pay for expenses incurred for themselves or their dependents (spouse, children living together with the member, anyone else who is dependent on the member for financial, domestic or personal support) for:

- Medical treatment and medical transport that are not readily available through the public health system and the treatment must be treatment to treat a life-threatening illness or injury, to alleviate acute (i.e. extremely severe) or chronic (i.e. lasting a long time) physical pain; and/or to alleviate acute or chronic mental condition;
- Transport to medical treatment;
- Modifications to a member's home or motor vehicle due to severe disability;
- Expenses associated for caring for terminal illness or funeral expenses; or
- Mortgage repayments to prevent the lender from selling the member's home.

However, it should be noted that some schemes have governing rules that prevent scheme members from withdrawing the benefits early, even when the scheme members satisfy the "compassionate grounds" condition of release.

Terminal Illness

6. Scheme members can claim Superannuation benefits if they have a terminal medical condition. A terminal medical condition exists

if:

- two registered medical practitioners have certified jointly or separately that the member suffers from an illness, or has incurred an injury, that is likely to result in the member's death within 12 months of the date of certification;
- at least one of the registered medical practitioners is a specialist practicing in an area related to the illness or injury; and
- the certification period has not ended for each of the certificates (a certificate is valid for 12 months from the date of certification and this is referred to as the certification period).

Permanent Departure

7. A scheme member who has worked in Australia as a temporary resident is eligible to claim Superannuation benefits upon departure from Australia. Early payment of Superannuation benefits on the ground of permanent departure is not available for permanent Australian or New Zealand citizens because they have the option to retire in Australia.

CHILE

8. In 1981, Chile replaced its pay-as-you-go social security system with a fully funded private pension system. All wage earners and salaried workers are required to have 10% of their earnings deducted to fund their retirement managed by private pension fund managers known as AFPs (Administradoras de Fondos de Pensiones).

9. Early withdrawal is permitted only if the accumulated balance exceeds a prescribed amount or if the member becomes disabled. In respect of the former circumstance, members may commence withdrawal at any age once their accumulated balance is sufficient to finance a pension equivalent to at least 150% of the minimum pension guarantee ("MPG") and 70% of their own average wage in the last 10 years.

SINGAPORE

10. In Singapore, the Central Provident Fund ("CPF") commenced operation on 1 July 1955. CPF operates as a centrally-administered, publicly-mandated multi-purpose social savings scheme built around individual accounts. Both employees and employers must contribute a substantial portion of earnings until the employee attains age 55. Apart from retirement benefits, the CPF also caters for housing, healthcare, education, investment and insurance needs. The multiple objectives of the CPF are the result of responses to particular economic or social problems at different points in time. The contribution rates to the CPF vary with age. The total CPF contribution rates are 36% (16% from employer and 20% from employee) for employees below 50 years old and 30% (12% from employer and 18% from employee) for employees aged between 50 and 55. Other than the CPF, the government provides only very limited financial support for the aged, e.g. topping up the Medisave accounts for the less well-off aged CPF scheme members on an ad hoc basis.

11. Contributions to the CPF are allocated to three accounts for different usages:

(i)	Ordinary Account	-For purchasing/paying for a home, insurance, investment and education
(ii)	Special Account	- For old age, contingency purposes and investment in retirement-related financial products
(iii)	Medisave Account	- For hospitalization expenses and approved medical insurance

When a scheme member reaches the age of 55, the member will need to set aside a Minimum Sum of S$131,000 (from 1 July 2011 to June 2012), using the amounts in the Ordinary and Special Accounts, in a Retirement Account to cater for retirement needs. Excess funds in the Special and Ordinary Accounts, after topping up any shortfall in the Medisave Account, may be withdrawn in a lump sum.

12. The proportion of contributions allocated to the Ordinary,

Special and Medisave accounts varies by age. Allocation to the Special Account and Medisave Accounts gradually increases with age as retirement and healthcare demands are likely to increase as one grows older.

13. As the CPF has evolved into a multi-purpose savings plan, pre-retirement withdrawal may be made using the savings in designated accounts for specified purposes. Savings in the Ordinary Account can be used for paying for insurance premiums under the Dependants' Protection Scheme and the Home Protection Scheme, or borrowed against for home purchase under the Public Housing Scheme and the Residential Properties Scheme, or borrowed against to help finance members' or their children's post-secondary education at approved local educational institutions. Savings in the Medisave Account can be used for paying for qualified medical expenses and medical insurance premiums. It should be noted that savings in the Special Account are designated for retirement and may not be used in the above circumstances.

14. All CPF savings may be withdrawn in the case of a member's death or becoming permanently unfit to work in any employment. Members suffering from severe medical conditions that are certified to reduce their life expectancy may withdraw their CPF savings on medical ground. If a member is about to leave or have left Singapore permanently with no intention of returning to Singapore for employment or residence, the member may also apply to withdraw CPF savings.

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RESPONSE TO CONSULTATION QUESTIONS

Mode of Payment of MPF Benefits

1. Do you agree that scheme members on reaching retirement should be allowed to choose whether to withdraw their MPF benefits in a lump sum or gradually over their retirement years?
   - □ Yes
   - □ No (Please explain your views:)

2. If you support the proposal to permit scheme members to withdraw their MPF benefits gradually over their retirement years, do you agree that the withdrawal arrangement (e.g. frequency or amount per withdrawal) should be left to be agreed between the MPF trustee and the scheme member or some requirements (e.g. a minimum amount per withdrawal or a maximum number of withdrawals per year) should be prescribed in the legislation?
   - □ Yes
   - □ No (Please explain your views:)

3. Do you have any other views on permitting scheme members to withdraw their MPF benefits either in a lump sum or gradually over their retirement years?

   ____

   ____

Additional Ground for Early Withdrawal of MPF Benefits

4. Do you agree that a scheme member who suffers from an illness that is likely to reduce the life expectancy of the scheme member (hereunder referred to as "terminal illness"*) should be allowed to withdraw MPF benefits early?
   - □ Yes
   - □ No (Please explain your views:)

5. If you support the proposal of allowing early withdrawal on the proposed ground, do you think that the remaining life expectancy of 6 months, 12 months or some other time period should be used as the criterion for allowing early withdrawal?
   - □ 6 months
   - □ 12 months
   - □ ____ months (Please explain your views:)

6. If you support the proposal of allowing early withdrawal on the proposed ground, do you think that certification that the scheme member is suffering from a "terminal illness" should be provided
   - by one or alternatively two medical practitioners, and
     - □ Certification by one medical practitioner
     - □ Certification by two medical practitioners
   - whether they may be either a registered medical practitioner or registered Chinese medicine practitioner, and
     - □ Yes
     - □ No, other requirements are: ______________________________ .
   - whether further requirements on the qualifications of the practitioners (such as some relevant medical specialty) should apply?
     - □ No
     - □ Yes, other requirements are: ______________________________ .

7. If you support the proposal of allowing early withdrawal on the proposed ground, do you think that a cap on the withdrawal amount should be prescribed? If so, what would you suggest as an appropriate cap for the purpose?
   - □ Yes, a cap should be set at ______________________________ .
   - □ No

* "Terminal illness" refers to an illness that is life endangering, such that the remaining life expectancy of the individual will be reduced to a specified period, and the specified period will end before the retirement age of 65.

8. Do you have any other views on permitting scheme members to withdraw their MPF benefits on the proposed ground?

____

____

Please use a separate sheet if the space provided is insufficient.

Information of Respondent (Please refer to the Personal Information Collection Statement on pages 3 and 4 of this Consultation Paper.)

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