



強制性公積金計劃管理局  
MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

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**By Email**

1 April 2020

**Circular Letter: PR/CTR/2020/001**

**To All Approved Trustees**

Dear Sirs,

**Principles for Developing Retirement Solutions**

As a key pillar of Hong Kong's retirement protection framework, the MPF System aims to assist the Hong Kong workforce to accumulate benefits for retirement.

To provide better retirement outcome for MPF scheme members, the option of phased withdrawal was introduced in 2016 for them to have their MPF benefits paid by instalments upon retirement. At the same time, following the global financial crisis and macroeconomic events that have led to increased volatility in the global financial markets and a low interest rate environment, scheme members are looking for more stable returns for accumulation of their retirement savings in the contribution phase. In view of the above, the Authority has set up a Working Group with representatives from the MPF industry to pursue the development of retirement solutions under the MPF System with a view to better meeting scheme members' investment needs in both contribution and withdrawal phases.

This letter encloses the Principles for Developing Retirement Solutions (**the Principles**), which have been developed following discussions in the Working Group. The Principles lay down a high level framework that serve to assist interested parties (**Solution Providers**), including MPF trustees and their appointed service providers, to develop retirement solutions to meet the needs of MPF scheme members in both the contribution and withdrawal phases. The Principles are not exhaustive for being taken into account by the Authority in considering or approving any retirement solution. The examples illustrated therein are for reference only. Assessment of proposals / applications will be conducted on a case by case basis.

The Authority will facilitate Solution Providers to develop retirement solutions through the “Investment Solution Lab”, a supervisory arrangement under which Solution Providers may submit proposals of retirement solutions to the Authority to receive our feedback at an early stage of development.

Prior to the launch of a retirement solution, Solution Providers should ensure that their operational procedures and systems are able to accommodate all the new features of the solution and that their MPF intermediaries are familiar with the features of the solution in order to provide competent advice to scheme members.

If you have any questions on the above, please contact Mr Paul Yu on 2292 1350 or Mr Kelvin Wai on 2292 1347.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'JL' followed by a stylized flourish.

Joseph Lee  
Director  
Product Regulation Division

Encl

# Principles for Developing Retirement Solutions

## Introduction

1. The Principles for Developing Retirement Solutions lay down a high level framework that serves to assist interested parties (**Solution Providers**), including MPF trustees and their appointed service providers, to develop MPF solutions to better meet the needs of MPF scheme members in both contribution and withdrawal phases.
2. With the introduction of phased withdrawal under the MPF System in 2016 to encourage scheme members to continue to invest their accrued benefits upon their retirement, there are growing needs for scheme members to utilize MPF funds for their investment needs in the contribution phase as well as in the withdrawal phase. The Authority welcomes proposals from Solution Providers to develop retirement solutions within the MPF framework for scheme members to meet such needs.
3. Retirement solutions can be delivered in a variety of ways and Solution Providers should consider various approaches in the course of designing retirement solutions. These approaches may include, but are not limited to, setting up a new fund, offering a solution by utilizing a combination of constituent funds or enhancing features of existing fund offering through administration based approach such as incorporating phased withdrawal with standing instruction to allow distributions to eligible scheme members. Default Investment Strategy is an example of retirement solution in the MPF System.

## The Principles

### **Principle 1 - A retirement solution should be transparent as well as simple and easy for scheme members to understand**

#### Transparent

4. The expected outcome of a retirement solution and the associated factors that may affect the expected outcome should be properly communicated to scheme members in the disclosure of the relevant retirement solution.
5. For example, for a solution with distribution feature, the distribution frequency and the expected amount of the distributions should be clearly communicated to scheme members. In addition, the distribution arrangement (e.g. whether it is implemented by way of

administrative arrangement of phased withdrawal or otherwise) should also be clearly communicated to scheme members.

#### Simple and easy to understand

6. Disclosure of retirement solutions should be simple and easy for scheme members to understand, and product information should be disclosed adequately. To this end, care should be taken to avoid information overload to scheme members and the use of technical jargon without elaboration or explanation in layman's terms.
7. Instead of using multiple pages of plain text to illustrate and explain a retirement solution's expected outcome, Solution Providers should use graphic/diagram/visual aids to facilitate scheme members' easy understanding.
8. Where a retirement solution has complex features which require scheme members to undergo complex calculation to ascertain the expected outcome under various scenarios, it would not be regarded as simple and easy for scheme members to understand. Retirement solution with such features are therefore undesirable.

#### **Principle 2 - The expected outcome of a retirement solution should be suitable for contribution and/or withdrawal phases**

9. When designing retirement solutions, Solution Providers should ensure that the expected outcomes of retirement solutions should be suitable for addressing scheme members' retirement needs.
10. Set out below are examples of outcome-oriented retirement solutions that may be regarded as suitable for contribution and/or withdrawal phases. Solution Providers may consider developing solutions that would cover both contribution and withdrawal phases or focus on either phase.

##### (a) Example for both contribution and withdrawal phases

A solution with an expected return in medium to long run that would beat inflation in Hong Kong may be regarded as suitable for both contribution and withdrawal phases. Such a solution may allow scheme members to simply keep their investment under the solution from contribution phase to withdrawal phase. It may further incorporate features such as distribution of steady income to accommodate the needs in withdrawal phase.

(b) Example for withdrawal phase

A solution with stable distribution features may be regarded as suitable for withdrawal phase. Such solution should allow scheme members to enjoy a distribution of income at regular intervals, e.g every month or every quarter.

11. While focusing on the outcome of retirement solutions, the risks associated with the investment strategy should also be considered. For example, an investment strategy that would lead to a high volatility would not be suitable in particular in the withdrawal phase.

**Principle 3 - The performance of retirement solutions should be reviewed regularly to ensure that the performance is in line with the desired outcomes**

12. The investment returns of retirement solutions should be regularly reviewed to ensure that they are on track to achieve the desired outcomes.
13. Solution Providers should identify and set an appropriate benchmark for assessing the investment returns of retirement solutions. The benchmark should be relevant to the desired outcome of a retirement solution. For example, a solution with an expected return that would beat inflation in Hong Kong should be benchmarked against an index relevant to inflation in Hong Kong.
14. The performance reviews should take into account the long-term investment horizon of a retirement solution.
15. If such review revealed that the retirement solution has underperformed, Solution Providers should take timely actions to address the issue.

**Principle 4 - The fee level should be appropriate for retirement solutions**

16. When setting the fee for a retirement solution, Solution Providers must ensure that its level is fair and reasonable to scheme members.
17. When assessing whether the fee level of a retirement solution is fair and reasonable to scheme members, Solution Providers should in particular consider the fee charged by MPF products/solutions and other investment funds with similar features in the market.

18. Providing a low cost retirement solution to scheme members is highly recommended. Solution Providers should, for example:

- (a) charge a lower level of fee for a retirement solution in the withdrawal phase as compared with the contribution phase. Scheme members who decide to stay investing in MPF funds after retirement are expected to demand less administration resources on the part of Solution Providers than an actively contributing member during the contribution phase and the offering of more favourable terms in the retirement solution is encouraged; and
- (b) consider broader adoption of passively managed products (e.g. exchange traded funds, index tracking funds) for obtaining the proposed investment exposure.