Luncheon

The Hong Kong Retirement Schemes Association

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"The MPF System and Retirement Protection of Hong Kong"

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Chairman

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Good Afternoon, Ladies and Gentlemen,

I am delighted to be here today and would like to thank the Hong Kong Retirement Schemes Association for inviting me to this luncheon. This is the second time that I have spoken at a luncheon organized by the Association this year, and I am pleased to meet once again Hong Kong's experts in retirement schemes.

With the arrival of the 15th anniversary of the MPF System, I wish to take this opportunity to share with you some of my thoughts about the MPF System and its roles in the retirement protection framework of Hong Kong.

History of the MPF System

The issue of retirement protection is complicated and multi-faceted. In my view, it relates both to the responsibilities of individuals and to those of society at large. Individuals do have a responsibility to save during their working years to prepare for their retirement, while society should provide assistance to those most in need.

There is no "one-size-fits-all" solution to retirement protection, but most would accept that a multi-pillar system, as recommended by the World Bank, provides a sensible policy framework. Based on this framework, the MPF System is a second pillar system, i.e., a mandatory, privately managed, fully funded contribution system. The role of the MPF System is to help the employed population of Hong Kong save for retirement. As such it has some deliberate scope limitations – it applies only to the employed population and it is not intended to be the sole source of retirement savings even for that group.

The first piece of MPF legislation was enacted in August 1995, and the MPF System started to operate in December 2000. The MPF System was established after a long debate on how to tackle retirement protection in the face of an ageing population. It was based on the consensus in society that such a system was a good means to provide basic retirement protection for the working population in Hong Kong.

Progress of the MPF System

Over the past 15 years, the MPF System has made a significant contribution to enhancing the retirement savings of the workforce in Hong Kong.

In measuring the progress of the MPF System, the statistics speak for themselves. Before the MPF System was implemented, it is estimated that only about a third of Hong Kong workers were covered by any sort of occupational retirement protection scheme. After the launch of the MPF System, as at September 2015, 85% of Hong Kong's workers (about 3.2 million) were covered by the MPF System or some other form of retirement scheme. Most of the remaining workers are not legally required to join any local retirement scheme.

As at October 2015, the total asset size of the MPF System had reached $594 billion. The sum includes $471 billion in MPF contributions (net of amounts withdrawn) and $123 billion in investment returns (net of fees and charges). People who otherwise might have accumulated little or nothing for retirement now have a sum put aside to support them later in life.

I am also delighted to note that a considerable number of scheme members and employers increasingly recognize the value of MPF as a vehicle for saving for retirement. More and more voluntary contributions ("VC") and special voluntary contributions ("SVC") are being made to the MPF System. The amount of VC and SVC made in the third quarter of 2015 were three times and 53 times respectively as the amounts made in the fourth quarter of 2005. In the third quarter of 2015, the amount of VC and SVC amounted to $2.16 billion and $1.63 billion respectively. The growth of VC and SVC is a vote of confidence by MPF scheme members.

Challenges and Major Initiatives in the Pipeline

As you are aware, the level of fees and charges of MPF funds is a major concern of the public. Regardless of whether fees are objectively high or not, the MPFA has always maintained the position that lower fees are in members' interests, and driving fees to as low a level as possible is therefore a natural target of the MPFA.

The MPFA has introduced a range of initiatives to bring fees down, primarily through promoting competition of the MPF industry and streamlining and simplifying MPF administrative processes to cut down administrative costs. These initiatives have yielded some results. From December 2007 to October 2015, the average Fund Expense Ratio of MPF funds dropped by 24% from 2.10% to 1.60%.

Over the past 15 years, the number of MPF funds has grown quite substantially. In early 2001, a total of 299 constituent funds were offered by MPF schemes. In October 2015, there were 457 constituent funds. While some scheme members prefer more choices, others may find it difficult to select from such a large number of choices.

To help those scheme members with difficulties in making fund choices, the MPFA has proposed to introduce a Default Investment Strategy ("DIS"). Substantial progress has been made to DIS since I introduced it to you in the luncheon of your Association this May.

Last month, the Government introduced the relevant Mandatory Provident Fund Schemes (Amendment) Bill 2015 into the Legislative Council, with the expectation that the DIS can be implemented by the end of 2016.

If the Bill is enacted, each trustee would be mandated to provide, in each scheme, a regulated, highly standardised and fee-controlled DIS which is consistent with the objective of long term retirement savings, and to invest the accrued benefits of those scheme members who have not made any investment choices according to the DIS.

The DIS would consist of two mixed assets constituent funds. Assets of these two constituent funds will be invested in local and overseas markets, and there would be a de-risking mechanism to gradually reduce the investment in higher risk assets of a DIS member from the age of 50 until age 65. There would also be a fee control. Management fees must not exceed an annual rate of 0.75% of the net asset value of the constituent funds.

In parallel with the DIS, as I mentioned to you in the luncheon this May, the MPFA has also embarked on another major initiative which explores possible measures to streamline and standardize the administration of MPF schemes as far as possible. In this regard, the MPFA has already appointed a consultancy to conduct a study on the development of what is tentatively called "eMPF". By means of a centralized electronic platform, the objectives of this initiative are to lower the operating costs of MPF providers, allow employers and scheme members to deal with various MPF matters more conveniently and efficiently, and provide scheme members with better-quality services.

Publication "Towards Retirement Security"

I am pleased to see so many experts in retirement schemes today and would like to introduce to you our latest publication, "Towards Retirement Security", which has just been released to celebrate the 15th anniversary of the MPF System. This publication provides a succinct review of the trends and developments of retirement protection systems in Hong Kong and around the world.

The findings of this publication show that second pillar systems have recorded substantial growth since Chile set up the first one in 1981. Today, second pillar systems are in operation in more than 30 countries/regions. As fully funded systems, second pillar defined contribution systems are financially sustainable. They are also actuarially fair, as members can only withdraw savings from their own accounts, and benefits are basically linked to the amount of their contributions. By requiring current workers to accumulate savings for their retirement in future, second pillar systems could avoid passing the pension bill to the next generation.

This publication analyses the current setup of Hong Kong's retirement protection which consists of different pillars, including various social security programmes (e.g. Comprehensive Social Security Assistance Scheme), MPF schemes, occupational retirement schemes, personal savings/investment, family support, individual assets, and a wide range of social services provided directly or indirectly by the Government, such as health care, elderly care services and public housing, etc.

In the retirement protection framework of Hong Kong, MPF is an important pillar. It is necessary, however, to keep in mind that MPF, of itself, can never be a complete solution to all issues associated with retirement protection in Hong Kong. For instance, the MPF System is employment-related and is therefore unable to offer protection to persons who are not employed or self-employed. As this publication points out, different pillars need to work together to provide for total retirement protection for the population of Hong Kong.

I hope this publication will provide useful information and insight for those who are concerned with the issue of retirement protection and is something that you will refer clients and colleagues to as a useful reference point.

Concluding Remarks

It has been 15 years since the implementation of the MPF System. As it takes an average working life of around 40 years for such a retirement savings system to mature, the MPF System is still young in terms of benefit delivery. In response to changing social, economic and market conditions as well as technological development, further refinements and improvements are expected to be implemented step by step in the future. It is our vision to build a retirement savings system that Hong Kong people value. I look forward to the continued support from the industry to make it a reality.

Thank you very much. I wish you and your families a Merry Christmas.