



**The Hong Kong Institute of Directors
Speaker Luncheon Meeting**

“MPF and Retirement Protection”

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MPF as the Second Pillar

0

Non-contributory, publicly financed and managed system

1

Mandatory, contributory and publicly managed system

2

Mandatory, privately managed, fully funded contribution system

3

Voluntary savings

4

Informal support, other formal social programmes and other individual assets



Hong Kong's Multi-pillar Retirement Protection System

Pillar	World Bank	Retirement Protection in Hong Kong
0	Non-contributory, publicly financed and managed system	CSSA; OALA; OAA
1	Mandatory, contributory and publicly managed system	Nil
2	Mandatory, privately managed, fully funded contribution system	MPF; ORSO; Civil service pensions schemes
3	Voluntary savings	Voluntary contributions to MPF; Retirement savings-related insurance
4	Informal support, other formal social programmes, and other individual assets	Public housing; Public healthcare; Residential and community care services; Elderly health care vouchers; public transport fare concession; family support; Self-owned properties





Features of MPF

- Privately managed
- Managed under trust
- Pooling small contributions for portfolio diversification
- Fully funded, financially sustainable
- Decentralized



“Sins of MPF”

- Fees too high
- Returns too low
- Insufficient for retirement
- “Enriches fund managers”
- “Better off buying Tracker Fund”
- Leakage resulting from offsets



Fees too high (I)

- Two components:
 - fund management
 - administrative
- Massive piece of social engineering
 - 2.8 million active contributors
 - 4 million individual account holders
 - 8.9 million accounts



Fees too high (II)

- Paper work and more paperwork
- Small, irregular monthly sums
- Low contribution (5% + 5%)
- Lots of industry participants (15)



Solutions to high fees

- Fees falling: 2.1% in 2007 => 1.57% recently
- AUM expanding: scale economies
- DIS (Default Investment Strategy): fee cap
- e MPF: better use of electronic facilities
- Exercise your right to choose!
(ECA: Employee Choice Arrangement)



Low returns: the first 15 years

(As of November 2015)

- 3.1% overall, versus 1.8% inflation
- Much depends on choice
 - equity 4.1%
 - mixed assets 3.9%
 - fixed income 2.8%
 - guaranteed 1.3%
 - conservative 0.8%
 - money markets 0.6%
- Exercise your right to choose!
- Dollar cost averaging



MPF insufficient for retirement

- For most people, that would be true
- System still young (15 years +)
- BASIC retirement protection (5% + 5%)
- Example of an unlucky 25 years old who never got a pay raise in his life
- MPF only one of several pillars



“Enriches fund managers”

- Why give money to mutual funds for management?
- What are the alternatives?



“ I’m better off buying Tracker Fund”

- Well, you can’t
- Gives small savers access to diversified portfolio





Achievements of MPF

- 85% of working population now covered by retirement schemes (before: only 1/3)
- Accumulated \$590 billion in first 15 years
- Fiscal reserves \$800 billion +
- Out of \$590 billion, 20% is investment gain
- 23% of contributions voluntary



Public policy

- Not about crafting a policy that's above criticisms
- But choosing between policy trade-offs
- MPF in the right direction



The End

