



The Latest Update on MPF System

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- 1. Updates on the MPF System**
- 2. Key Issues and Challenges**
- 3. Default Investment Strategy (DIS)**
- 4. Further Reform Initiatives**





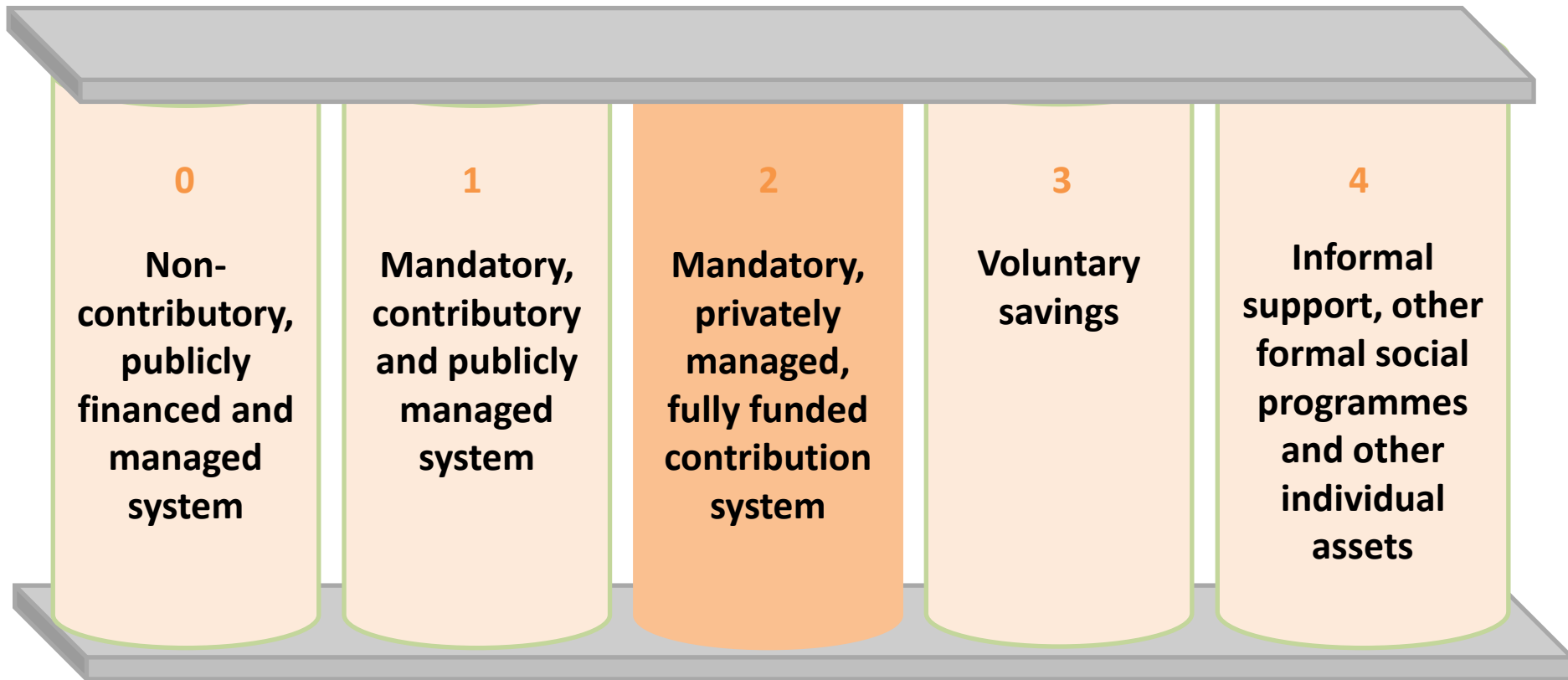
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Updates on the MPF System





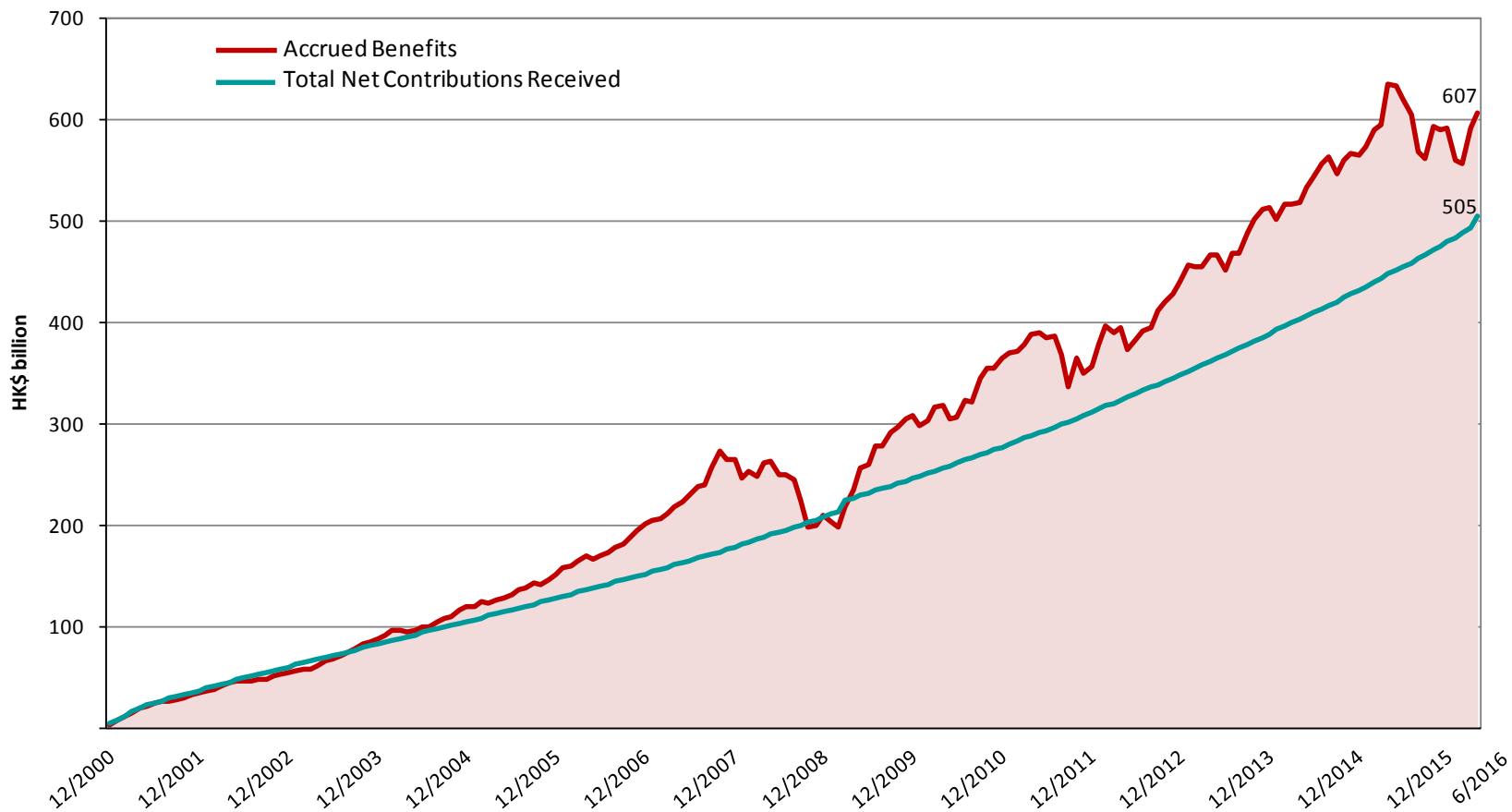
MPF as Pillar 2 of the World Bank's Multi-pillar Retirement Protection Framework





Growth of Assets

Equivalent to 75% of Government's fiscal reserve of \$806 billion at end of June 2016



Source: MPFA





Various Enhancements to the MPF System in Recent Years

- **Fees** - Reduction
- **Investment** - Refine investment requirements
- **Choice** - Employee Choice Arrangement (ECA)
- **Intermediaries** - Regulate sales and marketing practices
- **Withdrawal** - Increase flexibility (terminal illness and withdrawal by installment)



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Key Issues and Challenges





Key Issues and Challenges

Fees

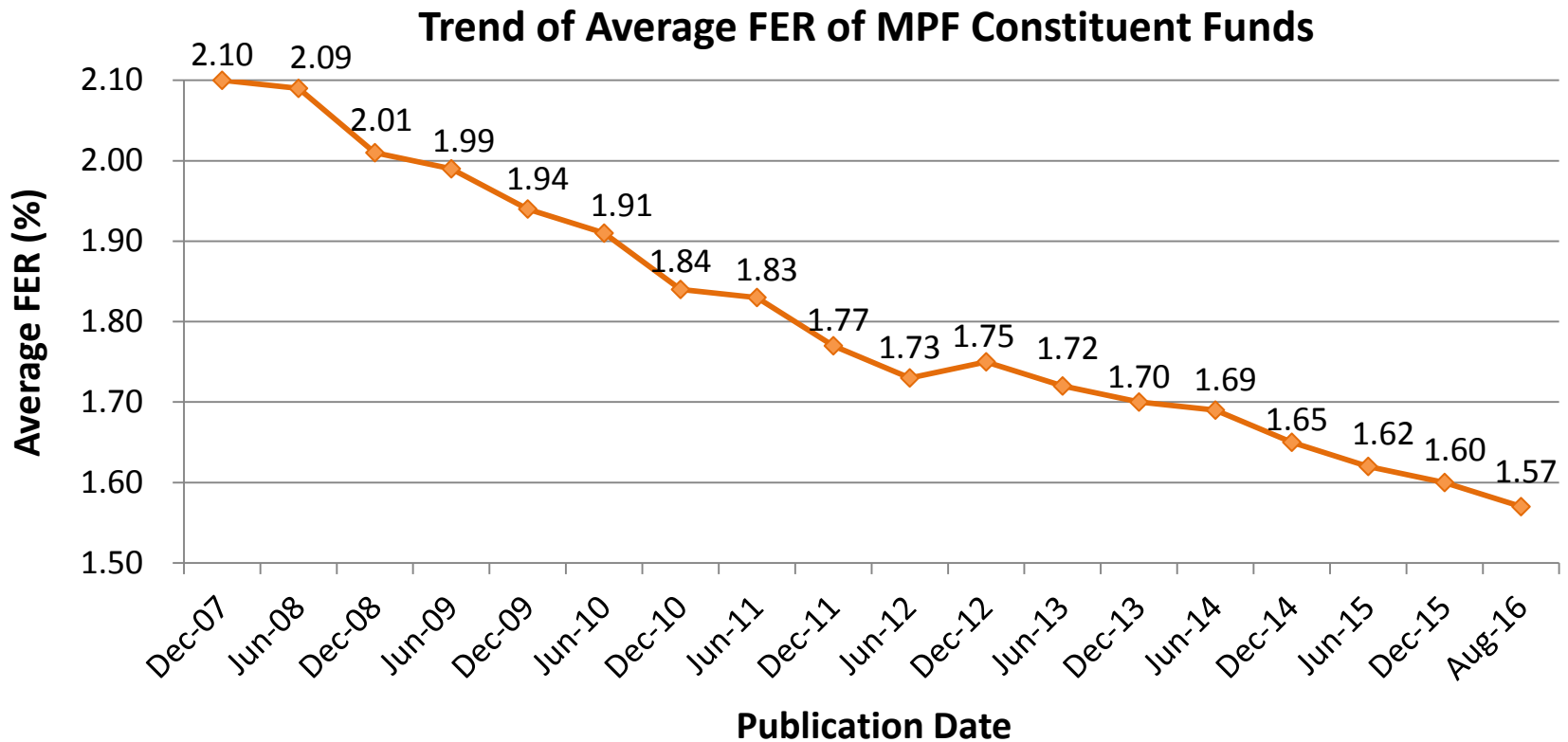
Investment Performance

Choice of Funds

Administrative Work

Fees

From Dec 2007 to Aug 2016: average FER dropped by 25%



Source: MPFA





Investment Performance

As of Jul 2016:



net of withdrawal

net of fees and charges





Fund Choice Impacts Saving Outcomes

Returns of Different Types of Funds

(Net of Fees and Charges)

Fund Type	1 Dec 2000 – 31 Jul 2016	
	Annualized Return	Cumulative Return
Equity Funds	4.0%	84.0%
Mixed Asset Funds	3.8%	79.3%
Bond Funds	3.0%	59.7%
Guaranteed Funds	1.2%	21.4%
MPF Conservative Funds	0.8%	12.9%
Money Market Funds	0.5%	8.5%





Choice of Funds

Wide range of products

- MPF schemes: 38
- Funds: 462
 - Average: 12 funds in each scheme
(maximum: 27; minimum: 3)

Scheme and fund numbers falling recently

Data as at 31 Aug 2016





Administrative Work

Complicated administrative work and high cost

- 18 trustees and 38 MPF schemes
- More than 9 million MPF accounts (around 3.8 million contribution accounts and 5.3 million personal accounts)
- Around 30 million MPF administration transactions per year
- Around 100,000 paper-based manual transactions per day



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Default Investment Strategy (DIS)





DIS

Why develop DIS?

- Investment decision-making is difficult!
 - Too many funds — hard to choose (post ECA)
 - Relieve members of the “burden” of choice
- Default fund different from scheme to scheme
- Moving disengaged to a better long-term strategy
- International best practices
- Need for a low cost solution



DIS

What is DIS?

- A relatively standardized investment approach for retirement savings (de-risking, global diversification)
- Mandated in every MPF scheme
- Fee control
- Amendment Bill passed in May 2016
- Target launch date: First half of 2017

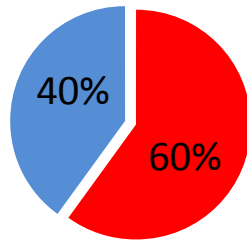


DIS – “1, 2, 3”

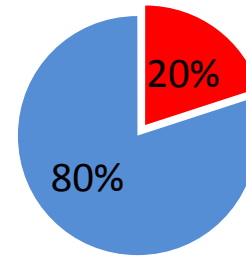
1 Ready-made, Low Fee Investment Solution

2 Constituent Funds

Core Accumulation Fund (CAF)

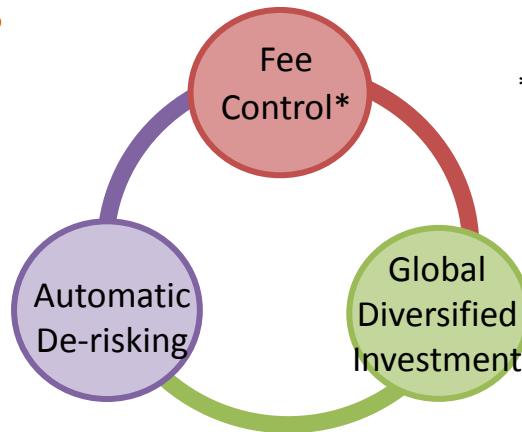


Age 65 Plus Fund (A65F)



- Higher Risk (mainly global equities)
- Lower Risk (mainly global bonds)

3 Main Features

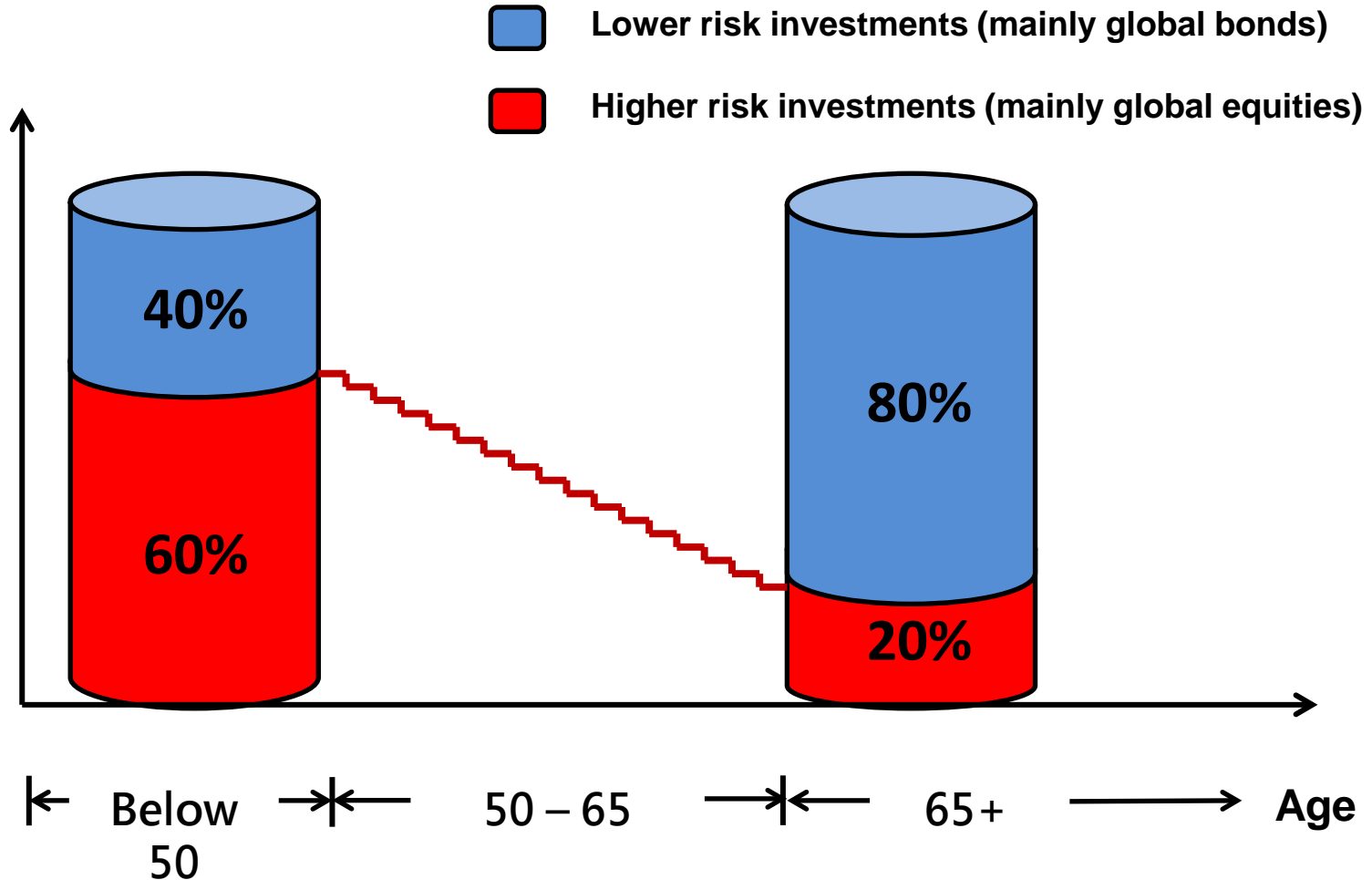


*0.75% management fee and 0.20% out-of-pocket expenses

Investment performance reported against an agreed industry reference portfolio

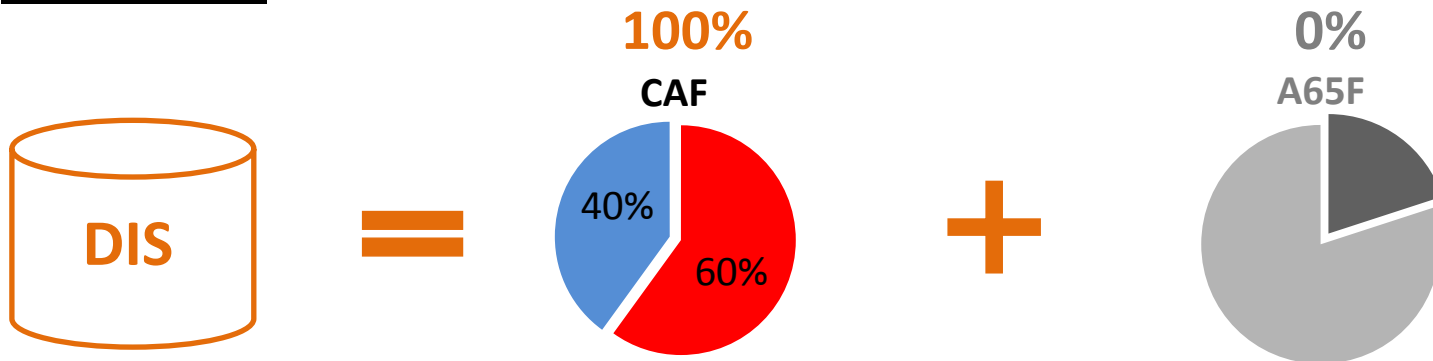


DIS – Investment Approach (The De-risking Theory)

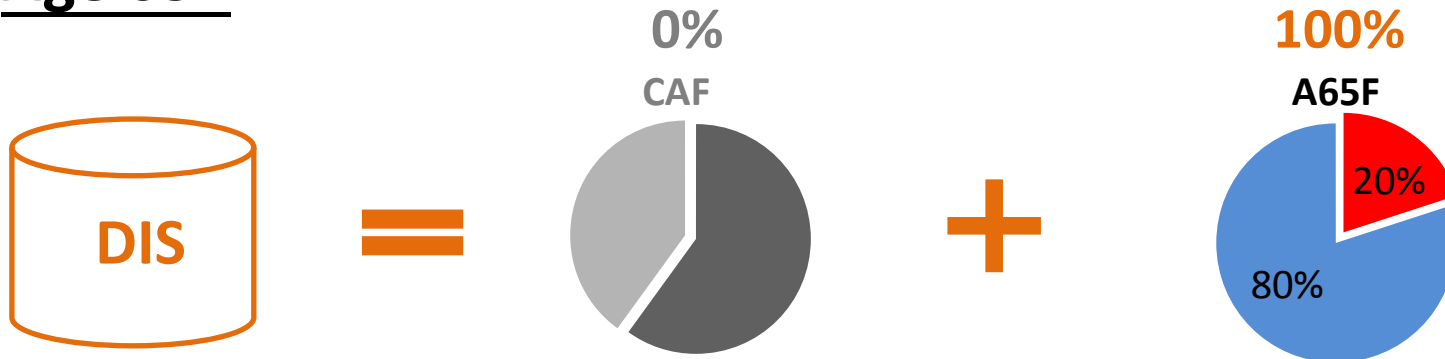


DIS – Investment Approach

Below 50



Age 65+



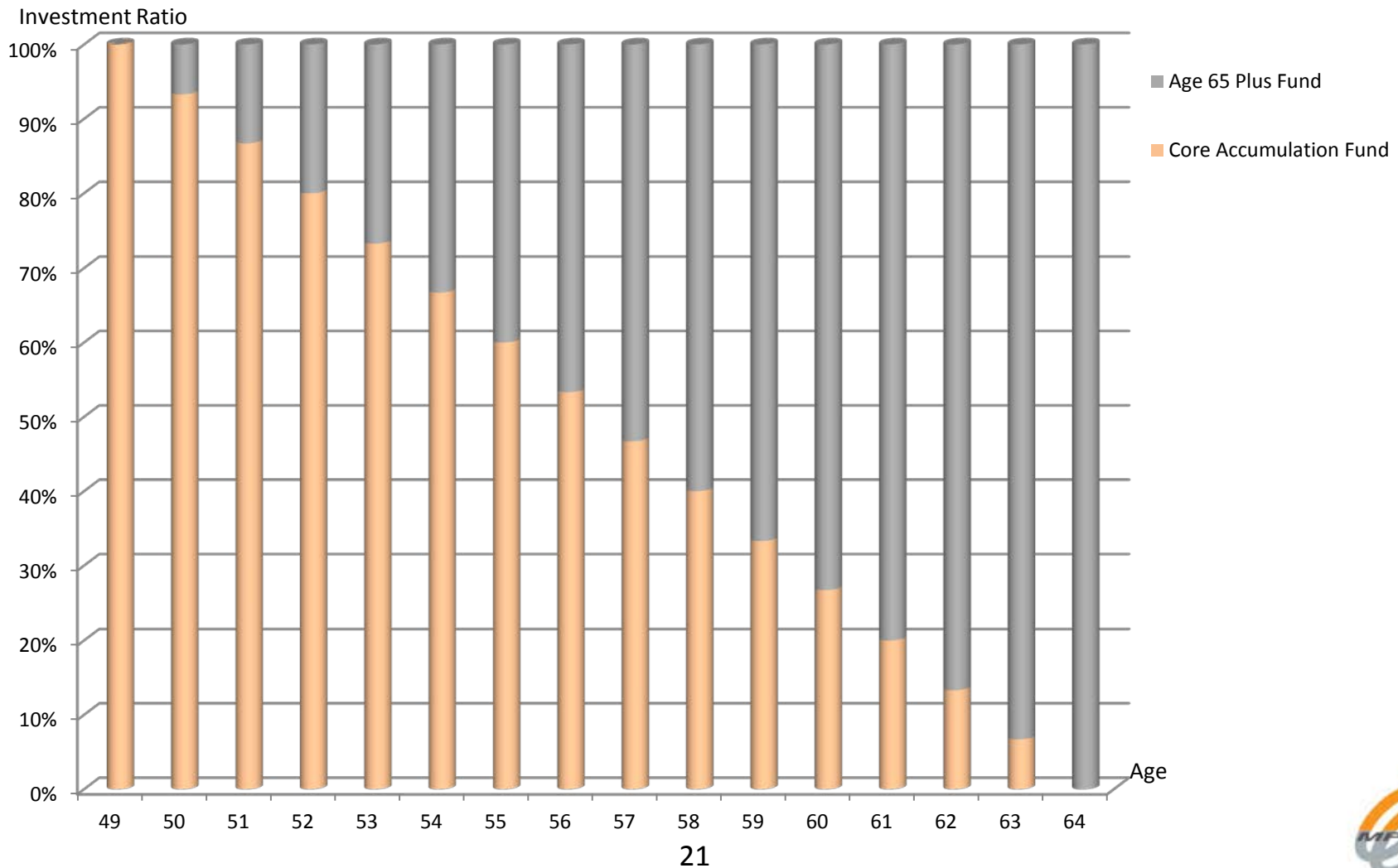
Age 50 to 65 move progressively from CAF to A65F

Investment Principles – Schedule 10 (2)

Age	Core Accumulation Fund	Age 65 Plus Fund
50	93.3%	6.7%
51	86.7%	13.3%
52	80.0%	20.0%
53	73.3%	26.7%
54	66.7%	33.3%
55	60.0%	40.0%
56	53.3%	46.7%
57	46.7%	53.3%
58	40.0%	60.0%
59	33.3%	66.7%
60	26.7%	73.3%
61	20.0%	80.0%
62	13.3%	86.7%
63	6.7%	93.3%
64	0.0%	100.0%



Investment Principles – Schedule 10 (2)



DIS – Impact on Scheme Members



Additional investment choice

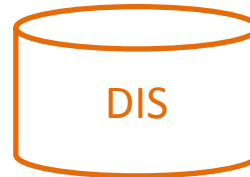


Not made investment choice i.e. following trustee/scheme default

Accrued benefits
Future MPF contributions



effective date



Trustees issue notices to scheme members

DIS – Impact on Scheme Members

- ✓ Around \$18 billion
- ✓ Will be transferred to DIS on effective date
- ✓ Future MPF contributions to DIS

around 1.05 million

12%

around 7.95 million

9 million
MPF Accounts

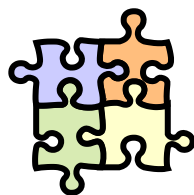
- Made an investment choice
- Not made an investment choice

Preparation for DIS



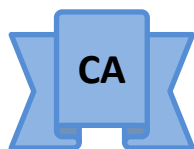
Changed correspondence address / not receive any letters from MPF trustees recently

- Check with your MPF trustees immediately and update correspondence address
- Provide email address to your MPF trustees



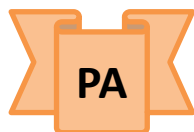
Investment Choice

- Confirm with your MPF trustees



Do not know where (trustee or scheme) your contribution account is

- Enquire with your employer



Do not know where (trustee or scheme) your personal account is

- Enquire with MPFA



What will the DIS achieve?

Choice

- For those who are uninterested or unsure about investment

Investment

- Provides standardized strategy
- Balancing long-term risks vs returns

Fees

- Provides cost protection
- Price setting by industry





4

Further Reform Initiatives



Future Reform Paths

“eMPF”

Tentative name for electronic infrastructure and processes to standardize, streamline and automate (SSA) MPF scheme administration in the long run

- Make good use of technology
- Improve efficiency and lower costs
- Scheme members – one-stop access
- Employers - convenient facilities for making contributions



Future Reform Paths

“eMPF”

- MPF scheme administration

Interaction with other pillars

- Government Consultation

Payout phase

- Are better payout structures necessary



Thank You

