RTHK's Letter to Hong Kong
29 November 2020

Chairman of MPFA
Dr David Wong

Dear Albert,

How are you doing lately? I suppose work is keeping you busy as always.

How time flies! December 1st marks the 20th anniversary of the launch of the MPF System, which reminds me that you also graduated and entered the work force in 2000. That's also when you started making contributions to your MPF account, which means that you have really grown together with the MPF System in the past 20 years.

Looking back, the journey of the MPF System, like that of our life journeys, has really seen its ups and downs.

I still recall that in the 80s and 90s, Hong Kong went through a long discussion about establishing a retirement protection system. Finally, the Government made the decision to set up the MPF System in accordance with the Pillar 2 system in the multi-pillar retirement model advocated by the World Bank.

When the MPF System was launched in December 2000, the economy was in a downturn amid the Asian financial crisis and financial markets were in turmoil. The SARS outbreak added to the economic hardship and there were really doubts about the future of the whole MPF System in the minds of the public.

Gradually, the economy began to recover, and with that, the MPF was gaining wider acceptance by the public. Still, financial markets were hit by periodic turmoil, some of them quite violent, such as the 2008 financial crisis, and successive black swan events in recent years, including Brexit, the China-US trade war and, of course, COVID-19.

Despite all these challenges, the resilience and sustainability of the MPF System stood the test of time. The total assets of the MPF System started from scratch but have now grown to over one trillion dollars, of which about $700 billion are principal while the remaining $300 billion are investment return net of fees and charges. This sizable sum represents not only the personal savings of individual citizens, it is also an important retirement savings pool of our community with its ageing population. Since the establishment of the MPF System, the overall annualized return has been 3.9%, compared to an average inflation rate of 1.7% over the same period.

With respect to coverage, prior to the launch of the MPF System, only about one third of the local work force participated in some form of retirement protection scheme. Today, more than 85% of the work force is covered by MPF or other retirement schemes. This coverage rate is among the highest in the world, and it is an important indicator of the success of the MPF System. The MPF System has also served to promote financial inclusion. The fact that MPF has no minimum investment threshold means that even low income workers making small monthly contributions can invest in high quality and well regulated fund products. Indeed, without the MPF System, some of our workers would be denied the opportunity to invest their savings on a regular basis in a wide range of sophisticated financial products to diversify investment risks. This demonstrates that MPF is a pioneering system in driving financial inclusion.

For two decades, the MPFA has made continuing efforts to meet changing public expectations. Reform initiatives include regular reviews and adjustments of the minimum and maximum levels of relevant income for MPF contributions. The Employee Choice Arrangement, launched in 2012, gave employees greater freedom in choosing their trustees and managing their investments. The Default Investment Strategy, which was rolled out in 2017, made investing easier for people who need help in choosing the funds that are right for them. And to encourage people to save more for retirement, Tax Deductible Voluntary Contributions (TVC) was introduced last year.

With regard to fees and charges of the MPF funds which have long been a point of contention, despite the fact that the MPFA has no statutory power to regulate fees, nonetheless we have been adopting a multi-pronged approach with a view to increasing transparency, promoting market competition, and enhancing scheme members’ financial literacy so that they can choose MPF funds that offer good value for money. With these efforts, the overall Fund Expense Ratio of MPF has gone down from 2.1% in 2007 to 1.45% at present, representing a significant decrease of 31%. But in any case, all scheme members looking to minimize fees now have the option to choose the Default Investment Strategy, which is offered at fees capped below 1%.

The MPF System is now entering its third decade, and we have recently embarked on the development of the eMPF Platform. This digital platform will streamline administrative processes, improve efficiency and reduce the overall costs of the MPF System. This project represents the most sweeping reform of the MPF System to date. We aim to finish building the Platform by the end of 2022. It is expected to forge a new landscape for the MPF ecosystem, deepen market competition and ultimately bring about a better user experience with lower prices for the benefit of our scheme members.

Albert, if you ask me what is the key to the success of the MPF System in Hong Kong, I'd say the key is threefold: Hong Kong's sound financial system, the diversity of investment products, and the possession of basic knowledge about the market on the part of the participants.

The original purpose of setting up the MPF System was to help the public develop good saving habits by making fixed monthly contributions for their retirement needs. Looking forward, the MPFA will remain faithful to its mission by actively managing this important pillar of retirement protection for the people of Hong Kong.

Wishing you good health and all the best!

Yours
Uncle David

29 November 2020