Attention: Consultation on Providing Better Investment Solutions for MPF Members

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23 September 2014

Response to public consultation on MPF core fund

Summary

1. The purpose of the MPF system is to protect the long term interests of employees. It does not exist to benefit banks, employers, or any other persons. It is time to recognize that the current system is broken and that root and branch reform is needed.

2. Two of the biggest problems with the MPF system are:

   i. Employees still have little control over which funds are chosen.
   ii. MPF fees are unfairly high.

3. Obvious solutions include:

   i. Employees should make the initial choice of MPF scheme, and have the right to change schemes at any time.
   ii. MPF fees should be capped.
   iii. MPFs should have to clearly state their fees.
   iv. Abolish the 'trustee' role.

4. It is a shame that Hong Kong's MPF system charges the highest fees for the most mediocre products available in a developed market. It is a system appears to be designed to avoid competition and extract extortionate fees from pensions.

5. Our recommendations listed in this letter will make the current system work better for its constituents (the customers). The ultimate solution is to scrap the

MPF system in favour of a universal defined-benefit pension, paid to all Hong Kong permanent residents by the HKSAR Government.

Choice of Scheme

6. Employers typically choose the scheme for their employees based on their own banking/insurance relationships. Employers' interests are may therefore conflict with their employees. Employers should have no role in choosing the MPF scheme. Employees should always be the only ones to choose.

7. There is no good reason to limit the employees change of scheme to once per year. They can better guard their own interests with the right to change schemes at any time. There should be no transfer fees.

Fee Cap

8. MPF funds charge fees that are higher than hedge funds and private equity funds - and for mediocre products. Those high fees even apply to simple ETF (exchange-traded funds) and money-market products.

9. ETFs (outside of the MPF system) can charge management fees as little as 5 basis points (0.05%) of assets under management ('AUM').

10. The high fees mean that it is impossible to accrue any assets under this system.

11. It also is obvious the reason most MPF funds are invested in equities is because bond yields are too low to justify the high fees of MPFs.

12. MPF schemes should only be allowed to charge one fee (the 'Management Fee'), covering all of their costs (management, operations, administration, custodian, brokerage, marketing, etc...). The fees should be capped. We suggest the below fee caps, reflecting approximate investment industry averages:

    i. Managed bond fund fees should be capped at: Management fee of **0.50%** of AUM

    ii. ETF-type money market/bond funds should be capped at: Management fee of **0.15%** of AUM

    iii. Managed equity fund fees should be capped at: Management fee of **0.60%** of AUM

iv. ETF equity funds should be capped at: Management fee of **0.15%** of AUM.

v. Mixed-asset class funds should be capped at: Management fee of **0.60%** of AUM

Transparent Fees

13. The fee charging system is nearly impossible to understand. The FER (Fund Expense Ratio) can refer to more than 20 different items.

14. As set out above, there should only be one fee that MPFs are allowed to charge (called a 'Management fee'). It should cover all of the funds' costs and expenses - and it should be capped. MPFs should prominently publish the 'Management fee'. The AUM should also be prominently published.

15. As set out above, there should be no other separate fees or penalties charged, only the capped management fee.

16. There should be no entry or exit fees. All funds should have daily liquidity so that investors can shift to another fund immediately. All of the approved funds are for fairly liquid products. This can easily be achieved.

17. Funds should have to publish their fund performance net of fees.

Abolish Trustees

18. The trustee system only serves to promote a cartel among a handful of banks and insurance companies. It is in the interests of the trustees to:

   i. Limit the number of investment managers;
   ii. Craft products that generate the maximum amount of fees for themselves; and
   iii. Spend as little on regulation as possible.

19. Trustees are unnecessary for our MPF system to work. They add an unnecessary layer of fees. They should be abolished and, instead, the MPFA should regulate and oversee the investment managers directly.

20. There should be an MPFA hotline for employees/members to complain about abuses and bad industry practices. The MPFA should have powers to enforce good practice in the industry.

Conclusion

21. The proposed MPF 'core fund' change is merely cosmetic. The entire system should be regulated properly by the MPFA directly - and not by self-interested banks and insurance companies. The fees should be simplified and capped at the levels suggested.

22. Eventually the entire system should be replaced with a defined-benefit universal pension.

Citizens for Fair Pensions