Name of respondent / 回應者名稱: -

Q1: Yes / 支持

Q1 Comment / 意見: We are very supportive of points (c) and (d). For points (a) and (b) we are generally supportive of the broad principles but have some caveats that are explained in the responses to the other questions below.

Q2: Yes / 同意

Q2 Comment / 意見: However, we would question what is meant by 'substantially the same'. If MPFA is overly prescriptive on the make-up of the default fund e.g. setting the asset allocation as say 60% equities, 40% bonds or setting the de-risking pathway to be used, then MPFA is taking on part of the role of an investment manager and this may leave little room for innovation in the market or the development of creative solutions. However, if MPFA sets the overall aim / target for the default fund then there is some discretion as to how the manager of each fund can achieve the aims. In the UK market, Diversified Growth Funds are often used as default options and the targets for these funds tend to be set as Cash Plus or Inflation Plus targets, and these targets seem appropriate for the Growth phase of a DC scheme. Maybe MPFA could consider approving a small range of fund objectives or strategies in a similar manner to the 'Qualifying Default Options' in the US DC market.

Q3: Yes / 是

Q3 Comment / 意見: The same caveats apply as for question 2.

Q4: Yes / 同意

Q4 Comment / 意見: In the UK market members have more choice on what to do with their pension savings at retirement from April 2015 onwards. Previously 90% or more of retirees in the UK bought a fixed annuity at retirement and so the design of the de-risking phase was relatively straightforward and members were de-risked over a 5 - 10 year period into bonds and cash. Now that the options at retirement will be wider, and members are more likely to remain invested in growth assets post retirement there is much less certainty as to how a de-risking glidepath should be constructed. In the light of this UK experience we would recommend that the starting point should be the understanding of how the majority of members use their pension pot post retirement. If most members remain invested in at least some form of growth assets post retirement then it will not be appropriate to de-risk completely at retirement. Recent UK research also shows that the biggest returns are generated in the last few years of a member's working life as contributions and pot size are highest and so retaining exposure to growth assets for longer can lead to significant extra returns (although clearly there is also extra risk). Overall, we would recommend some form of de-risking as the member approaches 65, but the end target asset allocation should be determined by how the monies are likely to be used post retirement.

Q5 Comment / 意見: Yes.
Overall our view is that some elements of the default structure can and should be left to the decision of individual product providers as this will encourage innovation as providers look to deliver the best product possible within an overall design framework and fee cap.
In terms of the specifics our view is that a series of target date CFs is preferable as the de-risking glidepath can be managed more intelligently within a fund as opposed to a lifecycle switching matrix. In target date funds the fund manager can have discretion to accelerate or decelerate the de-risking glidepath depending on market circumstances, whereas in a lifecycle switching matrix the de-risking glidepath is fixed.
In the UK most de-risking glidepaths begin to move out of the Growth asset 10 years before the member's selected retirement date, so we'd suggest that it could be worth setting up yearly target date funds for the last 10 years before retirement and having members invest in a single Growth fund up to this point. This means that only 10 target date funds would be needed e.g. 2015 - 2025 and one fund would mature each year and a new fund would launch.
We think that it is worth looking to gain a well-diversified exposure across multiple asset classes. The multi-asset or diversified growth fund has been highly successful in the UK market and if most of the underlying asset class building blocks are passively managed then this can be achieved within the suggested cost cap.
Comments on the other technical points can be found in the answer to question 4.

Q6: Yes / 同意
Q6 Comment / 意見: Our research shows that costs have a big impact on overall returns. All things being equal a 1% extra charge leads to a reduction of 12% in total asset value over 10 years and a 25% reduction in assets over a 20 year period. This has rightly been recognised as a concern by the MPFA. The UK market will impose a charge cap of 0.75% from April 2015 on default funds used in auto-enrolment schemes, so the MPFA proposed level would be in line with this. However, there is a balance to be struck and going lower than 0.75% is likely to mean that core funds cannot access particular asset classes or management styles which could add value after fees. A very low charge cap could also suppress innovation as the best investment thinkers may not be attracted to work in a highly fee-constrained environment.

Q7: Yes / 同意
Q7 Comment / 意見: In the UK the focus has been on annual management charges, which do not provide a full picture of the costs borne in the fund. Research from consultants (Lane Clark and Peacock's DC fee survey 2012) revealed that "Total costs can be as much as 50% higher than the headline direct annual management charge, often because fees charged by external holdings in Diversified Growth Funds (DGFs) are not disclosed." The same survey also noted "Taking into account trading costs as well, these additional costs combined can be over 100% higher than the quoted annual management charge, in some instances." We are therefore supportive of a cap on both total fees and total expenses.

Q8: Yes / 同意
Q8 Comment / 意見: The arguments for this case are well set out in the consultation paper.

Q9 Comment / 意見: Yes.
There are some funds that cannot be managed passively e.g. physical property funds that may well be worth including within a default asset allocation. In general corporate bond strategies also benefit from an active approach.

Q10: Yes / 同意
Q10 Comment / 意見: Yes

We prefer the 'MPF Core Fund' option as this provides a clear description of what the fund is. 'Simple' or 'Basic' could imply that the fund is not as good as other fund options and 'Default' could imply that the fund is exactly the same across all schemes; whereas our view is that some variation in design should be allowed.
Q10 Preference / 較可取的名稱: MPF Core Fund (having regard to its use as a core investment approach for retirement savings)

Q11: Yes / 同意
Q11 Comment / 意見: -

Q12: Yes / 同意
Q12 Comment / 意見: Using apathy as a tool to drive the preferred member behaviour is a well-established design principle in DC. In the UK, the auto-enrolment legislation uses 'Nudge' principles so that members are opted in unless they choose to opt-out. As a result opt-out rates have been less than 10% on average. If members are defaulted into the new funds with an opt-out clause this is a sensible design to ensure that most members will end up in the new default funds.