

Chairman's Statement



Ms Anna Wu
Chairman

Where We Are

Set up as the second pillar of old age protection according to World Bank's multi-pillar approach, the MPF System provides a framework for Hong Kong's workforce to save for their retirement. While a portion of the population is protected by other retirement schemes, the MPF System now covers almost every employee that it was intended to cover. Before it was launched in December 2000, only around 30% of the working population had formal retirement protection. With the System in place, 85% of employed persons have some form of retirement benefits, whether in the form of MPF schemes, occupational retirement schemes or other retirement protection schemes. This rate is amongst the highest in the world.

The MPF System did not come easy. It was the result of decades of debate and hard work and has weathered the Asian Financial Crisis, the SARS epidemic and the Global Financial Crisis. Whilst only in its early teens, it has accumulated a total net asset of \$516.19 billion (as at 31 March 2014), which is made up of \$399.95 billion of contributions and \$116.24 billion investment returns. The annualized rate of return since the System's inception, after fees and charges, was 4%, exceeding the average annual inflation rate of 1.6% and the average one-month Hong Kong Dollar deposit rate of 0.8% per year over the same period. The latest available average Fund Expense Ratio of MPF funds is 1.69%, representing a drop of 20% from the ratio of 2.10% in 2007.

Since its early years, MPFA has devoted much effort to refining the administrative and operational aspects of the MPF System. As we progress, more reviews on broader structural issues and long-term reforms are on the drawing board. I am pleased to see that our fundamental reforms have gathered momentum and are taking shape.

Recent Trends

With the MPF System in operation for over a decade, some trends have become increasingly evident. First, the amount of voluntary contributions into the MPF System continues to grow, from below 10% in the third quarter of 2004 to around 20% of total contributions in the first quarter of 2014. An increasing part of these voluntary contributions are not related to employment, so called “special voluntary contributions” (around one-third of all voluntary contributions in the financial year 2013-14). This is a sign that more and more scheme members are recognizing the benefits of MPF schemes. We gather that MPF may be attractive to some scheme members given that returns are, on the whole, similar to retail funds, but fees of MPF funds are lower than some retail funds. There are generally no sales or commission charges payable by the investing member. This development illustrates a growing confidence in the MPF System.

Second, there is a trend of increasing equity exposure of MPF assets, from 47% in the first quarter of 2001 to 65% in the first quarter of 2014. This level of equity content is very high by global standards, considering that the average equity exposure for private pensions in Organisation for Economic Co-operation and Development member states is only 40%. While this is largely a result of scheme members’ decisions, we are concerned that some members may not fully understand the choices they are making and the potential consequences.

Third, the number of funds is increasing. There were 477 constituent funds under 41 registered MPF schemes as at 31 March 2014 (averaging 12 constituent funds per scheme), compared with 299 constituent funds under 51 schemes as at 31 March 2001 (averaging 6 constituent funds per scheme). This does not only make decision-making difficult for some scheme members, but also limits the scale efficiencies that can be gained by each fund, making it harder for fees to come down and scheme administration less efficient.

Latest Developments

In view of these trends, measures have been taken and studies conducted to develop solutions to address major issues of concern, focusing on the interests of scheme members. Inputs are sought from stakeholders in the process. Efforts are geared towards making it easy for scheme members to manage their MPF accounts and investments, and making MPF scheme administration simple and easy.

Core Fund

To facilitate employee choice, achieve greater efficiency and reduce volatility of investment outcomes for members, the Government and MPFA are considering a new arrangement under which all MPF schemes will offer a standardized, low-fee investment fund that is designed in a manner consistent with the overall objective of retirement savings. Scheme members who do not, or do not want to, make a fund choice will have their MPF assets invested in this core fund. The core fund will also be available for selection by other scheme members. The low fees charged would allow a bigger amount to be saved for retirement, and the approach to investment seeks to minimize the scope for extremely negative outcomes as members approach retirement age. If the core fund can achieve economies of scale in a relatively short period of time, the overall cost-effectiveness of the entire MPF System can be enhanced as a result.

Chairman's Statement (cont'd)

Greater Member Autonomy

The Employee Choice Arrangement¹ or “semi-portability”, which came into effect in November 2012, gave employees a right to transfer the accumulated MPF benefits attributed to their own mandatory contributions to a trustee and scheme of their own choice. This first stage of reform will be extended to empower scheme members to have even greater autonomy over their MPF choice. MPFA is studying different options, and assessing their implications, of how to move towards the goal of “full portability”.

Cost-efficient Operation and Improved Scheme Administration

From a shorter-term perspective, measures have been taken to improve various aspects of the MPF System to achieve cost savings, thus increasing the scope for fee reduction. MPFA has encouraged scheme members to consolidate multiple personal accounts through a special campaign, worked with trustees to eliminate less efficient schemes and funds, and ensured the availability of low-cost funds investing in equities or bonds under each MPF scheme. We have identified the possibility of simplifying certain statutory procedures and requirements which MPF trustees have to comply with and are taking forward some of the required legislative amendments to effect the changes. An MPF payment settlement system (E-Payment for MPF Transfer System) has been developed and will be officially launched in June 2014, enabling MPF trustees to transfer scheme members' accrued benefits between each other electronically to reduce the time required for transfer of accrued benefits. MPFA will continue to work with the industry on standardizing and streamlining processes and making wider use of automation and common electronic platforms in the operation of the MPF System.

To further facilitate the working of market forces, MPFA has enhanced and standardized disclosure. Various tools have been introduced and made easily accessible, like the enhanced Fee Comparative Platform with five-year and ten-year annualized rates of return of MPF funds displayed alongside fee information, a Low Fee Fund List, and a Trustee Service Comparative Platform, to help members make informed MPF decisions.

More Challenges Ahead

A retirement protection system generally takes some 40 years to mature. The past 13 years is just the first phase of development of the MPF System. Needs and circumstances have changed since the establishment of the System. Meanwhile, the population is ageing rapidly. To further strengthen the second pillar of old age protection and better protect members' interests, we are facing more challenges ahead. Issues like the withdrawal phase are becoming more imminent as the System matures and more workers approach retirement age. Electronic infrastructure is one way to enhance the efficiency of the System for the future. The core fund proposal addresses the need to help members with investment choice as well as how to achieve economies of scale in MPF funds.

MPF is a mandatory system designed for the retirement protection of Hong Kong's workforce. We would like to maximize the benefits of the System for scheme members. As an advocate for members' interests, MPFA will remain attentive to members' needs and take heed of their views when formulating reform proposals.

¹ An arrangement that allows employees to elect to transfer the MPF accrued benefits derived from employees' mandatory contributions made during current employment and held in a contribution account under an MPF scheme to an MPF scheme of their own choice on a lump sum basis once every calendar year.

Vote of Thanks

The results of this year's work would not have been achieved without the support of my fellow Management Board Members and various supporting committees and working groups. I must thank them for their wise counsel and tremendous efforts in mapping out the various reform measures. I also appreciate very much the support of the MPF Schemes Advisory Committee and the Industry Schemes Committee, particularly their chairmen, Hon Wong Ting-kwong and Ms Li Fung-ying, in giving us valuable and insightful advice.

I am grateful to MPFA's dedicated colleagues who, under the capable leadership of Mrs Diana Chan, the Managing Director, have rendered another year's hard work and excellent professional service. Last but not least, I wish to express my appreciation for the initiatives taken by the industry in complementing MPFA's effort to refine the MPF System. We will continue to count on their support to work for the retirement protection of our workforce.



Anna Wu Hung-yuk
Chairman