

Managing Director's Report



Mrs Diana Chan
Managing Director

Scheme members have a vital stake in the MPF System. The total net asset value of their MPF accounts surpassed the \$500 billion mark in October 2013. As an advocate of the MPF System and protector of scheme members' interests, we at MPFA see it as our mission to continually improve the System and maximize scheme members' benefits in the light of the evolving needs of society. Some of the initiatives in this regard were completed in the year and others were well on track.

The Year in Review

I would like to highlight major results of the year.

Legislative Programmes

We are glad that two legislative exercises arising from reviews conducted earlier were concluded. With the legislation passed, a simplified contribution calculation method and a unified contribution scale for casual employees in Industry Schemes were introduced; and the minimum and maximum relevant income ("RI") levels for MPF contribution purposes were adjusted upwards from \$6,500 to \$7,100 and from \$25,000 to \$30,000 respectively.

Legislative amendments to effect proposed changes in the light of other reviews and studies were in the pipeline. We were assisting the Government in preparing the Mandatory Provident Fund Schemes (Amendment) Bill 2014 (the "Bill") for introduction into the Legislative Council by July 2014. The major proposal of the Bill will increase flexibility of withdrawing MPF accrued benefits by allowing withdrawal by instalments upon retirement and early retirement and allowing scheme members to withdraw MPF accrued benefits if they suffer a terminal illness. The Bill also includes other amendments to streamline MPF scheme administration processes and enable more effective enforcement actions to protect scheme members' interests.

Reviews and Studies

More proposals seeking to improve the MPF System are being considered. High on our agenda is a plan to enhance the regulation of default fund arrangements in MPF schemes and how an enhanced default arrangement can be used as the core fund in the System. Currently, a wide range of funds are being used as default funds in MPF schemes for investing MPF contributions of scheme members who do not make investment decisions. We found that the type of default funds varies across schemes and the risks and investment returns differ significantly. We also noted that some scheme members do not make investment decisions as they find it difficult to choose funds that suit their needs among the myriad of funds on offer. As explained by Chairman in her statement, we proposed that each MPF scheme has to make available a core fund charging low fees and with an investment approach that balances long-term risks and returns in a manner appropriate for retirement savings. We expect the fund to be a low-fee solution for scheme members who do not make investment decisions for whatever reasons and for those who look for a low-fee investment option. It would also act as a benchmark to put pressure on trustees for more reduction in MPF fees. The Government and MPFA have planned to launch a joint public consultation on the proposal in mid-2014.

Separately, we completed a comprehensive review of the statutory mechanism for adjusting the minimum and maximum RI levels. The introduction of the Statutory Minimum Wage (“SMW”) on 1 May 2011 gave rise to the consideration of whether the mechanism should be updated. We began the review after the effect of SMW on employees’ income distribution had become more apparent, and worked out and examined the possible options for an improved mechanism. Taking into account different views of key stakeholders, we formulated a proposed mechanism and put it forward to the Government in early 2014 for consideration.

Another major goal we set, also mentioned by Chairman in her statement, was to expand “semi-portability” (i.e. the Employee Choice Arrangement launched in 2012) to “full portability”. We continued with the relevant studies started in previous years to explore different options to further increase scheme members’ autonomy in choosing MPF schemes and funds and planned the infrastructural support required. We are working towards the goal of submitting a proposal to the Government by the end of 2015.

Supervising the Industry

We announced last year a series of short-term measures for enhancing the efficiency of the MPF System to achieve additional cost savings. With trustees positively responding to our calls, we made good progress in the year. First, we pursued various ways to streamline and standardize administration of MPF schemes and worked out legislative proposals to streamline certain processes. Second, a number of smaller or less efficient schemes and funds were consolidated or terminated with a view to achieving greater synergy and cost reduction in the MPF System. Third, all schemes but one had made available at least one low-fee fund¹ investing in equities and/or bonds for scheme members to choose, and the remaining one is preparing to launch this kind of fund later in 2014. Separately, we launched a large-scale exercise to call on scheme members to consolidate their personal accounts. Many scheme members took actions based on our advice. This is encouraging, as consolidation of accounts will facilitate better account management and contribute towards overall cost efficiency in the MPF System.

¹ A fund with fee of 1% or below or Fund Expense Ratio of 1.3% or below.

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While working on the above short-term measures, we also looked into ways to enhance the effectiveness of our efforts to supervise MPF trustees and our enforcement actions against breaches of MPF requirements. For better work efficiency and effectiveness, we re-organized our work and centralized all our enforcement functions in a dedicated team under a new Enforcement Division. The team handles all trustee-related complaints and investigates suspected breaches by trustees and service providers, and also handles prosecution and disciplinary action cases involving non-compliant trustees, intermediaries, employers and scheme members.

Member Protection

MPFA's primary mission is to protect scheme members' rights and interests. In the year, we continued proactive inspections at employment establishments to check compliance with MPF requirements, recovered on behalf of employees \$146.3 million in default MPF contributions, and enhanced self-employed persons' compliance. Meanwhile, enforcement action continued to be taken against scheme members who made false declarations in order to withdraw their MPF accrued benefits on grounds of permanent departure from Hong Kong.

Public Education and Publicity

Sustaining the momentum of the education and publicity efforts over the years, we carried out renewed programmes to raise public awareness of the MPF System and enhance their knowledge about MPF investment and account management. Furthermore, we launched widespread publicity on new initiatives and developments of the MPF System in the year and continued to disseminate various educational messages to the community. To complement the personal account consolidation exercise, we also carried out mass publicity to reiterate the merits of account consolidation, educate scheme members on how to consolidate their accounts, and encourage more scheme members to take actions where appropriate.

Corporate Social Responsibility

MPFA is dedicated and committed to its corporate social responsibility. We integrate environmentally friendly measures in our daily operations and promote the well-being of our staff and the community. In recognition of our endeavours in this regard, MPFA was awarded the Caring Organization logo for the ninth consecutive year and received numerous other awards, including the Class of Excellence Wastewi\$e Label for our efforts in reducing and avoiding waste, and a FutureGov Award of the Asia-Pacific region for developing an electronic system to facilitate efficient, accurate and paperless processing of transfers of MPF accrued benefits.

We vigilantly attend to the needs of the community and are dedicated to the delivery of quality results and the highest level of professionalism in customer service. Internally, staff members who exemplify our core values of Commitment, Teamwork, Quality and Community Perspective were recognized through our on-going corporate staff recognition programme. Externally, two staff members won the Ombudsman's Awards 2013 for Officers of Public Organizations for their excellent service to the public. This is the eleventh consecutive year that the awards have been conferred on our staff members.

Looking Forward

Having undergone several difficult periods in the past 13 years of operation, the MPF System has proven itself to be fundamentally sound and solid. But there are more challenges ahead. Hong Kong is entering into a phase of accelerated ageing population. We will continue to strive for a sustainable future through our commitment to strengthening the second pillar of retirement protection for Hong Kong's workforce. We will work towards the vision that scheme members will find it easy to manage MPF in accumulating funds for retirement, and the MPF System will be simple to administer and provide good value for money.

Building on the work that has started, we will continue to pursue long-term reform initiatives based on the Government's policy directions given in the Policy Address in 2013 and 2014 to bring about substantial developments in the MPF System. As mentioned above, we will consult the public on proposals regarding the introduction of a core fund and draw up implementation plans by the end of 2015 for proposals to increase scheme members' control in managing their MPF accounts. In the process, we will always be mindful of the need for consensus in introducing any changes.

We will actively pursue the standardization, streamlining and automation of MPF administration processes, continue to review and improve the disclosure and information presentation of schemes and funds, and follow through the related legislative exercise that has commenced. In supervising the industry, we will address key operational risks in scheme administration and enhance trustees' governance arrangements. We will continue to enforce the law against non-compliance, and educate the public on the MPF System and MPF investment. Within the organization, we will maintain our focus on training and upgrading the skills and expertise of our staff, and enhance staff's awareness of our corporate social responsibility and roll out related activities.

Vote of Thanks

The results that we achieved in the year did not come easy. I must express my deep indebtedness to the Chairman, members of the Management Board, chairmen and members of committees and working groups, and chairmen and members of the MPF Schemes Advisory Committee and Industry Schemes Committee for their inspiring and valuable advice on the direction and development of the MPF System and unwavering support of our work throughout the year. My heartfelt thanks also go to my team of enthusiastic staff at MPFA for their dedication and relentless efforts.



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