

Refining the Regulatory Framework

Overview

Our role

- To review regulatory issues and operational policies of the MPF System
- To consider the need for amendments or reforms to legislation and make proposals to the Government where appropriate
- To review and amend MPF Guidelines and Codes and prepare new ones as appropriate
- To conduct research in support of MPFA's role as regulator of the MPF System

In 2013-14, we

- continued to study options that would give scheme members more control over their MPF accounts with the aim of submitting an implementation plan to the Government by the end of 2015
- worked with the Government and the industry to draw up legislative proposals arising from the review of the regulation of withdrawal of MPF accrued benefits and assisted the Government in preparing the Mandatory Provident Fund Schemes (Amendment) Bill 2014
- completed the amendments to the subsidiary legislation to simplify the contribution calculation methods for casual employees in Industry Schemes
- reviewed the minimum and maximum levels of relevant income ("RI") in the light of the increase of the Statutory Minimum Wage ("SMW") rate and assisted the Government in introducing into the Legislative Council amendments to the subsidiary legislation to effect the adjustments of the RI levels
- completed a comprehensive review of the statutory adjustment mechanism for the minimum and maximum RI levels for MPF contribution purposes and a consultation with key stakeholders, and put forward to the Government a proposed mechanism
- reviewed the arrangements in MPF schemes for investing contributions of scheme members who do not make investment choices and, based on the review outcomes, developed a proposal for enhanced regulation of default funds
- continued to improve disclosure of information about MPF schemes
- amended 20 sets of MPF Guidelines

Refining the Regulatory Framework (cont'd)

Reforming the MPF System



"To better protect members' interests, we are moving from refining operational matters to broader policy proposals, and we will be assuming an increasingly more proactive advocacy role to tackle the greater structural issues."

– Hon Anna Wu, MPFA Chairman and Chairman of the Working Group on MPF Reform Issues

Employees' Control over MPF Accounts

The Employee Choice Arrangement ("ECA")¹ has been operating smoothly since its launch in November 2012. By end of March 2014, trustees received around 125 800 ECA transfer requests. Some employees ask for more control over their MPF accounts than that provided by ECA. There are various ways in which employees can be given more control over their MPF accounts. We are studying various options and the implications and challenges having regard to employees' aspirations and the need to minimize complexity and cost impacts. We aim to submit an implementation plan to the Government by the end of 2015.

Withdrawal of MPF Accrued Benefits

Our earlier consultation suggested broad support for providing an option to withdraw MPF accrued benefits in phases upon scheme members attaining age 65 or satisfying the criteria for early retirement, and to allow early withdrawal by scheme members having been certified as suffering from a terminal illness². Accordingly, we submitted to the Government legislative proposals to effect the proposed changes and are assisting the Government in preparing the Mandatory Provident Fund Schemes (Amendment) Bill 2014. The Government plans to introduce the Bill into the Legislative Council within the 2013-14 legislative session.

Statutory Adjustment Mechanism for Minimum and Maximum RI Levels

The MPF legislation sets out a mechanism for reviewing and adjusting the minimum and maximum RI levels³. There were calls for reviewing the mechanism in the light of the introduction of SMW on 1 May 2011. After a comprehensive review, we worked out and examined various options for an improved mechanism. A consultation with key stakeholders (including labour unions, employer associations, chambers of commerce, industry bodies and ISC) was conducted from September 2013 to January 2014. Taking into account different views, we have proposed a new mechanism which is considered to be able to balance different interests. We submitted the proposal to the Government for consideration in April 2014.

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.

² Terminal illness refers to an illness that is life endangering, such that the remaining life expectancy of the individual is reduced to 12 months or less.

³ The MPF legislation provides that MPFA must, not less than once every four years, conduct a review of the minimum and maximum RI levels to ascertain whether or not there are grounds to amend the levels. In conducting the review, MPFA must take into account the adjustment factors set out in the legislation.

Core Fund

We reviewed the existing arrangements in MPF schemes for investing MPF contributions of scheme members who do not make investment choices, making reference to international research and approaches to default investment for defined contribution pension plans⁴. Currently, a wide range of funds, with differing risk and return profiles, are being used as the default investment fund in MPF schemes, giving rise to differing investment retirement outcomes for scheme members who do not make an investment choice. Based on the review outcomes, we consider that there is scope for introducing better investment solutions through offering a standardized, low-fee investment fund (core fund) for scheme members who do not, or do not want to, make an investment choice. The core fund will also be available as a choice to scheme members who are agreeable to its investment strategy and lower fees. After a process of internal deliberation and gathering views from key stakeholders, MPFA and the Government plan to launch a joint public consultation in mid-2014 to further develop the reform proposal regarding the core fund.

Information Presentation in Offering Documents for MPF Schemes

Improving the presentation and disclosure of MPF information has been an important ongoing project of MPFA. During the year, we reviewed the information presentation in the offering documents for all MPF schemes and conducted a survey on scheme members to better understand their preferences and opinions on the information presented in existing offering documents. The review and survey will help us identify ways to improve the readability and usefulness of these documents from readers' and scheme members' perspective. Areas for further improvement relating to simplification, standardization and comparison will be considered for implementation.

Legislative Amendments

Minimum and Maximum RI Levels

After the announcement of a new SMW rate, we reviewed the minimum and maximum RI levels in early 2013 and proposed adjustments pending the formulation of a new adjustment mechanism. On 17 July 2013, the Government moved motions at the Legislative Council seeking approval of the proposed amendments to the subsidiary legislation⁵ to adjust the two levels. The Council approved the amendments. The monthly minimum RI level was increased from \$6,500 to \$7,100⁶ (effective 1 November 2013) and the monthly maximum RI level was increased from \$25,000 to \$30,000⁷ (effective 1 June 2014).

Simplification of the Contribution Calculation Methods for Casual Employees in Industry Schemes

In the light of operational experience and concerns of relevant stakeholders, we formulated amendments to the MPF Schemes (Contributions for Casual Employees) Order to simplify the contribution calculation methods for employers to calculate the mandatory contributions payable for and in respect of their casual employees who are members of Industry Schemes by introducing a new calculation method and a unified contribution scale⁸. The Legislative Council completed the vetting of the amendments in October 2013. The new contribution calculation method and the unified contribution scale took effect on 1 November 2013.

⁴ Retirement plans in which employers, employees or both make contributions on a regular basis. Individual accounts are set up for participants and benefits are based on the amounts credited to these accounts (through employer and employee contributions) plus any investment earnings on the money in the accounts.

⁵ Details of the proposed amendments are set out in the Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 2) Notice 2013 and Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 3) Notice 2013.

⁶ The daily and yearly minimum RI levels were raised from \$250 and \$78,000 to \$280 and \$85,200 respectively.

⁷ The daily and yearly maximum RI levels were raised from \$830 and \$300,000 to \$1,000 and \$360,000 respectively.

⁸ Details of the proposed amendments are set out in the Mandatory Provident Fund Schemes (Contributions for Casual Employees) (Amendment) Order 2013 and Mandatory Provident Fund Schemes (Contributions for Casual Employees) (Amendment) (No.2) Order 2013.

Refining the Regulatory Framework (cont'd)

Guidelines and Codes

We issue MPF Guidelines and Codes to elaborate on and support the legislative requirements, hence facilitating compliance with the MPF legislation. During the year, we revised 20 sets of MPF Guidelines, mainly to:

- reflect the MPF legislative amendments in relation to the adjustments of the minimum and maximum RI levels and the consequential changes in the MPF context in the light of the commencement of the new Companies Ordinance;
- provide guidance on various streamlining initiatives including the facilitation of consolidation of personal accounts, rationalization of the procedures for claiming MPF accrued benefits and submission of specified electronic forms for delivery of annual returns by MPF intermediaries; and
- set out the additional information required to be submitted by trustees in respect of the arrangement of using MPF accrued benefits to make severance payments and long service payments.

As at 31 March 2014, 72 sets of Guidelines and two Codes were in force.