

Chairman's Statement



Ms Anna Wu

Chairman (17 March 2009 to 16 March 2015)

Retirement protection is an important element of social stability. A well-designed retirement protection system inspires confidence and security in people, and contributes to the development of a sense of identity. As the population of Hong Kong is rapidly ageing, it is all the more important to invest in our future and consider how to better provide for our future retirement.

The MPF System is set up as the second pillar of old age protection in Hong Kong according to the World Bank's multi-pillar approach. It is complementary to other financial sources of retirement protection, such as government social security programmes and individual savings arrangements. These different pillars are intended to work together to provide more security in relation to retirement savings adequacy for the population.

Reforms in recent years

In order to strengthen the contribution of the MPF System to the pool of resources for old age protection, the operation of the System has been continually refined and reformed. Largely at the initiative of MPFA, the MPF legislation has been amended on 15 occasions since 2000 to improve the MPF System. During my six-year tenure as Chairman of MPFA, a number of reforms were pursued within the framework of this second-pillar system to further enhance its role. The objectives of the reforms are to: give employees greater autonomy in managing their MPF, simplify choice, reduce costs, aim for more consistent performance, reduce risk and simplify administration.

Greater autonomy for employees

The MPF System was designed as employer-based, giving employers the choice of trustees and schemes. This was the deliberate starting point in order to simplify scheme administration by having contributions made to trustees through employers rather than individual employees, and to reduce the need for massive upfront preparatory education of over three million employees. As employees are the ultimate beneficiaries, we are working towards making MPF more employee-based by giving employees more control over the investment of their MPF contributions. Under the steer of my predecessors, changes to the legislation were initiated to give employees greater autonomy in managing part of their MPF investments. The Employee Choice Arrangement was launched in 2012 together with a statutory regime for the regulation of MPF intermediaries, giving employees a right to transfer the accumulated MPF benefits attributed to their own mandatory contributions to a scheme of their own choice. As a result, the focus has gradually shifted to employees, where it should be. This helps enhance scheme members' engagement in their MPF investments.

Simplify choice, reduce risk

We found in our studies that a considerable number of scheme members are struggling with how to choose amongst the numerous fund options offered by individual schemes. A consequence is that many of them simply do not make any choice, and some might even have made choices that are not suited to their needs. The current default investment arrangements for members who do not make a choice are not standardized, and funds of different strategies are designated as default funds in different schemes. As the investment objectives, risk levels and fee levels of these default funds vary widely, the investment outcomes for members investing in these default funds in different schemes also differ significantly.

A retirement system should deliver more consistent performance and offer simple choices. To address the issue of fund choice, we put forward a proposal to enhance the regulation of default arrangements in MPF schemes by mandating a standardized default investment strategy ("DIS") across all MPF schemes. This will simplify what can be a difficult investment decision-making process for scheme members. The DIS will be designed to provide for automatic de-risking as a member approaches retirement age. This will contribute towards more stable performance and reduce risk, consistent with the objective of retirement savings.

Reduce costs, control fees

The MPF System has been criticized for its high fees. Over the years, measures have been taken to enhance competition and reduce the costs of operating the System to allow more room for fee reduction. These include enhancing fee disclosure, implementing the Employee Choice Arrangement to facilitate better working of market forces, streamlining and simplifying administrative processes, requesting trustees to offer low-fee funds, and working with trustees to merge less efficient schemes and funds. The average Fund Expense Ratio of MPF funds as at 31 March 2015 was 1.62%, representing a drop of about 23% from the ratio of 2.10% in 2007.

We are taking another important step in reducing fees. With support from the Government, legislation will be introduced to propose capping the management fees of DIS at 0.75% of assets under management per annum. Room for further reduction of this fee level will be kept in view after implementation, particularly when greater economies of scale are achieved over time.

Simplify administration

In the early years, legislative changes were introduced to refine the administrative and operational aspects of the MPF System. As the System matures, certain scheme administration processes may no longer be necessary, and further attempts have been made to simplify the processes so as to enhance efficiency and reduce costs. The Mandatory Provident Fund Schemes (Amendment) Ordinance 2015, enacted in early 2015, includes provisions to eliminate or streamline processes that have become superfluous after the System's initial launch. Additionally, simplification was achieved through automation, including an electronic system known as ePASS launched in 2012 to provide a secure platform for automatic transmission of data on transfer of MPF benefits between trustees, and an E-Payment for MPF Transfer system launched in mid-2014 to automate payments for the transfers, further shortening the time needed and enhancing the accuracy and efficiency of the transfer process.

This year, we have started to explore the feasibility of a single electronic platform to centralize some scheme administration functions. Our vision is to develop a platform which would require scheme members to register only once, and would allow scheme members access to lifelong electronic services to manage their MPF accounts without having to fill in various forms when changing employment or transferring between schemes. This would greatly improve user experience, simplify administration, and reduce administration costs. A feasibility study of the framework will start in the 2015-16 financial year, and I look forward to the ultimate realization of this vision.

Helping achieve retirement protection

In its fifteenth year of operation, the MPF System has now become an important component in the overall retirement protection system in Hong Kong, making significant contributions to workers' retirement reserves. 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, nearly 90% 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 excellent by international standards.

As at 31 March 2015, the total net asset value of all MPF schemes was \$594.85 billion, including \$444.08 billion of net contributions and \$150.77 billion of investment returns. This would significantly alleviate the future collective burden of the community in providing financial support for retirees. The annualized rate of return since the System's inception, after fees and charges, was 4.3%, exceeding the average annual inflation rate of 1.8% and the average one-year Hong Kong Dollar deposit rate of 1.1% per year over the same period. These are indications that the MPF System is effectively fulfilling its role of assisting the working population in accumulating financial assets for their retirement protection.

Concluding remarks

My involvement with MPF started in 1995 when the legislation providing for the framework of the MPF System was first introduced into the Legislative Council, of which I was a Member. It is my honour and privilege to have continued to participate in the development of this major social programme, first as a founding non-executive director of MPFA from 1998 to 2005 and later as its Chairman from 2009 to 2015. It has been a great pleasure to witness the growth and development of the MPF System and the gradual accumulation of assets for the retirement protection of Hong Kong workers.

Throughout the years, I have been most fortunate to work with very capable and committed colleagues on the Management Board and its supporting committees and working groups. They have put in tremendous efforts in studying and drawing up reform proposals to improve the MPF System. My heartfelt thanks also go to members of the MPF Schemes Advisory Committee and the Industry Schemes Committee for their valuable advice and continued support.

I am profoundly grateful to MPFA's colleagues for their devotion and hard work. Under the capable leadership of Mrs Diana Chan, the Managing Director, they have executed new projects and seen to daily operations diligently and professionally. I am particularly impressed by the coverage and depth of the efforts made in stakeholder engagement, whether in partnering with the industry in taking forward reforms and refinements to the MPF System, in reaching out to various stakeholder groups to understand their views, or in educating members of the public about MPF and retirement protection.

The work of MPFA in these years has contributed to the infrastructure on which the MPF System will continue to grow and succeed. I am sure that under the leadership of Dr David Wong, the incoming Chairman, MPFA will rise to the many challenges ahead with confidence and professionalism.



Anna Wu Hung-yuk

Chairman

(17 March 2009 to 16 March 2015)