



Chairman's Statement

Dr David Wong
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Hong Kong is among the first in Asia to implement a Pillar 2 retirement protection system — the MPF System. The MPF System should continue to play a role as a key pillar that works with the other pillars in providing retirement protection in Hong Kong.

It is my pleasure and honour to be appointed Chairman of MPFA in 2015, when the MPF System entered into its 15th year of operation. With increasing awareness among the general public of their retirement needs, our work at MPFA is full of challenges and opportunities ahead.

MPF's Role

The MPF System was set up as a Pillar 2 system of retirement income protection in Hong Kong under the multi-pillar framework advocated by the World Bank. It is a mandatory savings system complementary to other financial sources of retirement protection, such as government social security programmes, voluntary savings and family support. While the MPF System has a pivotal role to play, MPF alone cannot, and was never intended to replace the functions of other pillars. It is only by working together that these different pillars can provide for total retirement savings for the population.

Over the years, the MPF System has been performing its function of helping the working population save for retirement. Before the MPF System was implemented, only one-third (1.1 million) of Hong Kong's employed population were covered by any sort of occupational retirement protection scheme. As at 31 March 2016, 85% (3.2 million) of Hong Kong's employed population were covered by the MPF System or some other form of retirement scheme, while most of the rest were not legally required to join any local retirement scheme, such as employees aged below 18 or 65 and above. This coverage rate is amongst the highest in the world.

The total net asset value of all MPF schemes as at 31 March 2016 was \$593 billion. This amount, equivalent to almost 70% of the Government's estimated fiscal reserve, would significantly alleviate the future collective burden of financial support for the aged. From the perspective of the individual, those who otherwise might have accumulated little or nothing for retirement now have a sum set aside as one of the financial sources to support them later in life. The annualized rate of return since the System's inception, after fees and charges, was 2.6% as at 31 March 2016, while the average annual inflation rate over the same period was 1.9%.

Now in its 15th year, the MPF System is still young, whereas the journey to retirement is long. The average working life of an individual is around 40 years. Only after around 40 years can we first see the magnitude of benefits that the MPF System can produce over a full working life.

Making MPF Work Better

As one of the pillars of retirement protection, the MPF System is intended to provide only basic retirement protection, and only for the employed population of Hong Kong. Even for this group, MPF is not intended to be the sole source of retirement savings. That said, reforms can still be pursued within the framework of this Pillar 2 system to further enhance its value to scheme members. Since inception of the MPF System, efforts have been made to improve MPF scheme administration and operations. Two major strategic reforms have been pursued in recent years, and will continue to be our focus in the years to come.

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Simplify choice, reduce risk, control fees

While some scheme members may want more investment choices, there are also scheme members who do not know how to choose MPF funds or how to manage their MPF investments. The current default arrangements for those who do not make a choice of MPF investment options are not standardized, and different types of funds are designated as default funds in different schemes.

We have been working on an initiative to enhance the regulation of default arrangements in MPF schemes by mandating a standardized Default Investment Strategy (“DIS”) across all MPF schemes. The DIS is a globally diversified investment strategy and will provide for automatic de-risking as a member approaches retirement age. The funds in the DIS will be subject to a fee control mechanism. Hence the DIS will simplify choice and control fee, and contribute towards more stable performance and reduce risk, which are consistent with the objective of long-term retirement savings.

Simplify administration, reduce costs

The MPF System involves numerous administration processes on the part of trustees, such as processing contributions from employers, allocating contributions according to employees’ fund choices, following up cases of failure to make contributions, and processing applications from scheme members for transfer or withdrawal of benefits. The efficiency of scheme administration has significant implications on the costs of the MPF System. Within the existing legislative framework, MPFA has in the past pursued a number of measures to reduce the costs of the System. These include working with trustees to merge less efficient schemes and funds, streamlining and simplifying administrative processes, and encouraging scheme members to consolidate personal accounts. These would potentially ease MPF administration for employers and management of accounts for employees. In a bid to further reduce administrative costs, we have been studying the development of infrastructure, tentatively called “eMPF”, to standardize, streamline and automate MPF scheme administration in the long run.

These initiatives will be further developed in the coming years, and I look forward to their gradual delivery of results.

Helping Scheme Members

The investment returns that scheme members will get on their MPF savings depend to a large extent on the investment decisions they make and the returns of the investment markets that they have chosen to obtain exposure to. As a result of scheme members’ collective choices, the MPF System has a relatively high exposure to equity markets (65% of total MPF assets as at March 2016). This high equity exposure increases the volatility of returns in the System and leads to significant negative impacts when equity markets suffer downturns.

When getting in touch with members of the community, I notice that many scheme members do not have a clear idea of what MPF investment choices they have made, and some make untimely fund switches in response to short-term market fluctuations. Given the important impact of members’ investment choices on the outcomes of their retirement savings, it is imperative that scheme members have a proper understanding of MPF investment risks and closely monitor their own portfolios. Over the years, MPFA has organized investment education programmes to equip scheme members with the requisite knowledge to manage their retirement investment effectively. This will continue to be a focus of our work.

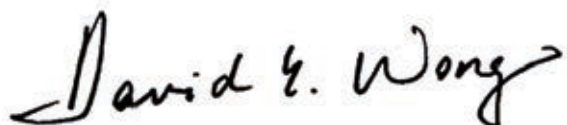
Closing Remarks

Now in its adolescence, the MPF System is gradually fulfilling its role of assisting the working population in accumulating financial assets for their retirement protection. We will keep on nurturing and strengthening it so that it will come to play an increasingly important role as a key pillar that works with the other pillars in providing retirement protection in Hong Kong.

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I am immensely grateful that past members of the Management Board and its supporting committees have put in great efforts in bringing up the MPF System with devotion, laying a strong foundation for its future growth. As the MPF System celebrates its 15th birthday, I wish to thank all my fellow Management Board Members for another year's dedication and hard work. I would also like to express my deep appreciation to the MPF Schemes Advisory Committee and the MPF Industry Schemes Committee, particularly their respective chair persons, Hon Wong Ting-kwong and Ms Li Fung-ying, for their valuable advice on MPF issues.

The MPFA team, under the capable leadership of the Managing Director, Mrs Diana Chan, has demonstrated high levels of commitment and professionalism. I wish to thank all of them for their dedication and tremendous support all along.



David Wong Yau-kar

Chairman