

## Managing Director's Report

As we are living longer and expecting longer retirement periods, the MPF System will play an increasingly important role in promoting the retirement protection of the people of Hong Kong. We at MPFA will persist in our efforts to foster sustainable development of the MPF System in the interest of the Hong Kong working population.

Addressing the retirement needs of the population is a big challenge to modern society, particularly when the baby boomers are getting closer to retirement age. This is especially true for Hong Kong where life expectancy is among the highest in the world. Hong Kong is among the forerunners of putting in place the MPF System, a Pillar 2 system under the multi-pillar framework advocated by the World Bank, helping the working population save for basic retirement needs.

A well functioning MPF System plays an important role in, and is an integral part of, Hong Kong's retirement protection. The stronger the MPF System becomes, the less reliant our working population will be on the publicly-funded pillar after their retirement.

### MPF System — Progressing over the Past 15 Years

With all the efforts made over the past 15 years, the MPF System has been advancing and improving gradually. To name but a few significant developments, the fee level of MPF funds has come down, with the average Fund Expense Ratio of MPF funds dropped by more than 24% from 2.1% in 2007 to 1.58% as at 31 March 2016. Scheme administration has been progressively streamlined, simplified and automated — for example, an E-Payment for MPF Transfer system was launched to automate payments between trustees for the transfer of scheme members' benefits, and statutory procedures and requirements were simplified. More safeguards are in place to protect scheme members' interests, with the law amended to plug loopholes, enhance deterrent effect on non-compliance and

prevent mis-selling. To facilitate better management by scheme members of their own MPF portfolios, information disclosure has been improved in various aspects, including the issue of a Code on Disclosure for MPF Investment Funds, and the launch of the Fee Comparative Platform and the Trustee Service Comparative Platform. Scheme members began to have more control over their MPF investment under the Employee Choice Arrangement. More recently, legislative changes were implemented in August 2015 to allow early withdrawal of MPF benefits on the ground of terminal illness and in February 2016 to allow withdrawal of MPF benefits by instalments upon retirement and early retirement.

On the basis of our past experience and research work, we published a book *Towards Retirement Security* in the year. The publication provides a succinct review of the trends and developments of retirement protection systems in Hong Kong and the world, showing ways and approaches adopted by different societies to respond to the issue of retirement protection. It will provide useful information and insight for those who are concerned with the subject.

With assets of \$593 billion as at 31 March 2016, including \$493 billion of contributions (net of amounts withdrawn) and \$100 billion of investment returns (net of fees and charges), almost three million scheme members, and nearly 100% employer participation, Hong Kong can take some pride in having the MPF System that is delivering meaningful retirement protection results and helping enhance the certainty of retirement income of scheme members. Riding on its considerable strengths, MPFA will continue to refine and improve the System with a vision to make it a retirement savings system valued by the people of Hong Kong.

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Mrs Diana Chan  
Managing Director



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### Preparing for the Future

#### Default Investment Strategy

A fundamental reform in the making is the introduction of a highly standardized and fee-controlled investment approach, the Default Investment Strategy ("DIS"), to serve as a simplified investment option that is consistent with the overall objectives of retirement savings. The automatic de-risking approach of the DIS and the fee control, first time ever under the MPF System, will directly benefit scheme members who invest into the DIS. Throughout the past year, we have worked closely with the Government on the details of an amendment bill to mandate the provision of a DIS by trustees across all MPF schemes, and with trustees to prepare for the launch of the DIS. The amendment bill was passed by the Legislative Council on 26 May 2016. We will collaborate with various parties on the preparatory work and strive to launch the DIS as soon as possible.

#### Standardization, streamlining and automation of scheme administration

It has been our target to keep the MPF System simple and flexible to cater for the needs of people from diverse backgrounds, and drive down costs, and consequently fees, as far as possible to maximize net returns. Over the years, we have introduced a range of initiatives to reduce the complexity of the System, for example, statutory procedures and requirements were simplified in 2015–16 and an enhanced electronic platform was introduced for data submission to reduce trustees' operational and compliance costs, and therefore the costs of the whole System.

In the pipeline is another major reform initiative seeking to streamline, standardize and automate MPF scheme administration with the help of technology in the long run (tentatively called "eMPF"). If eMPF is implemented, it will increase the operational efficiency and lower the operating costs of the MPF System. In the longer term, it is hoped that eMPF will allow employers and scheme members to deal with various MPF matters more conveniently and efficiently, and provide scheme members with more flexibility and better-quality services and tools. During the year, we commissioned a consultancy study on a preliminary conceptual model of infrastructure and processes of eMPF.

We will further map out the direction of introducing eMPF and explore how the potential benefits of the supporting infrastructure for eMPF will be channelled to scheme members.

#### Publicity and public education

MPF is a long-term investment for retirement savings with ups and downs in its investment returns over the individual's working life. The investment performance is inevitably affected by the cycles of the financial market. It is therefore important for scheme members to manage well their own portfolios, and a proper understanding of the investment risks in relation to MPF is essential. Investment education and ensuring proper disclosure of MPF information are the key tools used by MPFA to support scheme members in making informed investment decisions and managing their MPF investment effectively. Extensive public education and publicity campaigns have been organized over the years to help raise public awareness and acceptance of MPF, educate the general public about the benefits of MPF for their future, and enhance scheme members' MPF investment knowledge. These have been rolled out on different platforms, including television, radio, print and, in recent years, online platforms. We will carry on with our efforts on this front. Taking the opportunity of the launch of the DIS, we will carry out large-scale publicity and education programmes to enhance scheme members' understanding of proper concepts of retirement investment and the importance of proactive management of their MPF accounts.

### Governance and Member Protection

#### Robust governance and risk culture in the MPF industry

A quality MPF scheme ought to have attributes other than charging low fees and generating satisfactory investment returns. We expect MPF trustees to maintain a high standard of governance to ensure at the very least full compliance with relevant rules and regulations, and to administer their MPF schemes efficiently and provide good customer service. Under the campaign on promoting good governance and risk culture among the trustee industry, we completed a round of regulatory visits to trustees' boards of directors to discuss governance and risk management



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issues. We then held further discussions with individual trustees to remind them to strengthen their governance on different aspects of operations, and provided feedback on specific governance issues for their follow-up actions.

### Protection of scheme members' interests

We closely monitor various parties' compliance with the MPF and ORSO legislation, handle complaints, investigate suspected breaches or non-compliance and take necessary enforcement actions. In the year, we recovered over \$133.7 million outstanding contributions in MPF schemes and \$981,000 outstanding contributions in MPF exempted ORSO registered schemes on behalf of employees. A publicity campaign was rolled out to help employers understand their MPF obligations. As part of the campaign, the first Good MPF Employer Award was organized to recognize employers who place a high value on their employees' retirement needs, and to encourage employers to go the extra mile in providing retirement protection for their employees.

### Sustainability of the Organization

Given the importance of the MPF System and the role of MPFA in overseeing the System, we attach great importance to the sustainable development of MPFA as an organization. We strive to provide a supportive environment for our staff, our most valuable asset, by helping them realize and develop their potentials through training and career development opportunities, and promoting their physical and mental well-being through various events and family-friendly measures.

In the year, we consolidated our operations by relocating three of our offices from West Kowloon, Central and Kwai Fong to an office in Kwai Chung. The relocation is expected to enhance cost-efficiency and deliver significant savings in rental expenditure in the coming years. We now maintain three offices respectively in Kwai Chung, Kwun Tong and Sheung Wan to provide services to the general public.

While persisting in our efforts to foster sustainable development of the MPF System in the interest of the working population in Hong Kong, we pursue initiatives to protect the environment, extend our care to the community and enhance the well-being of our employees. In recognition of our endeavours in corporate social responsibility, MPFA was awarded the 10 Years Plus Caring Organization logo by the Hong Kong Council of Social Service, and recognitions by other organizations, in the year.

### Vote of Thanks

I must express my gratitude to the Chairman, members of the Management Board, and the chairmen and members of its committees and working groups, the MPF Schemes Advisory Committee and Industry Schemes Committee for rendering MPFA valuable support and insightful guidance. My heartfelt thanks also go to my colleagues at MPFA for their faithful service and relentless efforts in pursuing our corporate objectives and goals.

Taking this opportunity, I would like to thank the other financial regulators who worked closely with us in supervising the MPF industry. My sincere appreciation also goes to the industry for their cooperation and support in implementing various initiatives to refine and reform the MPF System. Their professionalism and contributions are indispensable in providing better services to scheme members and contributing to a better MPF System.



**Diana Chan Tong Chee-ching**  
*Managing Director*