



Chairman's Statement

David Wong

How to provide income security for the elderly in an increasingly ageing world - this is a challenge common to all countries.

At the Global Forum on Private Pensions hosted by the Organisation for Economic Cooperation and Development/International Organisation of Pension Supervisors in Beijing in October 2018, pension supervisors around the world exchanged their views on how to tackle this challenge.

On that occasion, I shared the experience of Hong Kong in implementing the MPF System, one of the first few mandatory defined contribution systems in the world.

I am very much encouraged by the fact that the importance of the MPF System in tackling the challenges of an ageing population is recognized by international experts.

Suited to Scheme Members' Needs

System design

International studies show that the global trend of pension reforms is gearing towards the development of private pensions as government revenues are becoming less able to finance retirement promises. As a privately managed retirement savings system, the MPF System is in line with this international trend.

The defined contribution arrangement makes the MPF System financially sustainable. With contributions made by employers and employees, the System is fully funded with assets dedicated to meet future retirement benefits payable to scheme members, unaffected by the credit risks of the employers or the Government.

The MPF System is especially suitable for Hong Kong, a small and open economy facing the emerging problem of an ageing population due to a low fertility rate and long life expectancy.

As at the end of March 2019, \$893.3 billion of assets have been accumulated in the MPF System, of which 72% (\$640.77 billion) were contributions (net of amounts withdrawn) and 28% (\$252.53 billion) were investment returns (net of fees and charges).

Amounting to the equivalence of 74% of Hong Kong's fiscal reserves, these are concrete assets that can provide basic support for scheme members upon retirement.

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Investment arrangement

The MPF System helps scheme members develop investment discipline and set aside small sums regularly for their retirement reserves. With a small amount of contributions every month, scheme members are able to invest in quality markets and diversified portfolios through stringently regulated financial products managed by major financial institutions.

To ensure that the investment options are suitable for the vast majority of scheme members, investment regulations are prudently drawn up.

Good Outcomes

The MPF System is doing well by international standards.

In 2016, the World Bank developed an Outcome Based Assessment Framework for Private Pensions for monitoring and evaluating privately managed pension systems. Under the framework, the five key ultimate outcomes of a pension system are efficiency, sustainability, coverage, adequacy and security.

As discussed above, the MPF System is sustainable by design. In terms of coverage, MPF schemes now cover 100% of employers and employees, and around 70% of self-employed persons. Underpinned by sound legal and financial systems in Hong Kong and the MPF regulatory and supervisory regime, the MPF System is highly secured, with members' assets and interests safeguarded.

Adequacy and efficiency are areas in which we need to catch up. There have always been public concerns expressed about MPF being insufficient for retirement and about fees and returns of MPF funds.

Minded to improve the MPF System for scheme members' benefit, MPFA puts in great efforts to fill these gaps. These efforts are complemented by the industry's endeavours to act in the best interest of scheme members.

Making MPF Better

Amount of savings

The MPF System is designed to meet basic retirement needs. Mandatory contribution rates are relatively low. More savings on top of the mandatory portion are necessary to enhance retirement protection.

Through education, we encourage scheme members to make voluntary contributions to accumulate more savings for retirement. MPF trustees also offer incentives to attract voluntary contributions. The proportion of voluntary contributions as a percentage of total contributions has increased from 12% to 16% over the past 10 years.

The much welcomed introduction of tax deductible voluntary contributions, coupled with trustees' related promotional offers, is expected to further encourage people to save more for their retirement under the System.

Fees

With decentralized administration of schemes, cumbersome administration processes and a high volume of paper-based transactions, the administration costs of the MPF System have been high.

By streamlining administrative processes to reduce costs and facilitating the working of market forces, MPFA has endeavoured to bring down the level of fees. Trustees have also reduced fees over the years.

The latest initiative to develop an eMPF Platform to support the scheme administration of all trustees will simplify and automate administration and reduce operating costs, allowing greater room for fee reduction in the long run.

Returns

MPF investments have generated reasonable returns so far. For the period from 1 December 2000 to 31 March 2019, the annualized rate of

return (net of fees and charges) of the MPF System as a whole was 4%, higher than the 1.8% annual inflation rate over the same period.

With a long investment horizon, retirement savings are particularly vulnerable to the volatility of the financial markets. The introduction of the Default Investment Strategy since 1 April 2017 seeks to provide a retirement solution that balances the long-term trade-offs between risk and return.

As fiduciaries, trustees also play a part in safeguarding scheme members' interests in this respect. They can help monitor the investment performance of constituent funds under their MPF schemes, and promptly take appropriate actions where persistent underperformance is identified.

Fundamental Reform

The project to build an eMPF Platform for MPF scheme administration will help automation and enhance operational efficiency. Over the long term, it is anticipated to reduce overall administration costs of trustees through more efficient infrastructure and processes.

The platform will make it convenient for scheme members to manage their own MPF accounts. Standardization of scheme administration tasks and automation will also reduce the time and efforts of employers in managing MPF transactions and records.

With enhanced transparency, the platform will facilitate open competition, making more room for further fee reduction.

The project is not simply about building an electronic platform. It will change the manner in which the MPF System has been operating for two decades. This entails a lot of changes to all stakeholders involved, including employers, scheme members, trustees, other service providers, as well as MPFA.

To make the project a success, the support of all stakeholders as well as the public are essential.

Acknowledgements

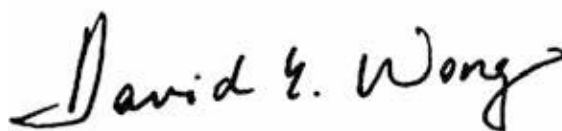
It has always been my firm belief that MPFA is not just a regulator supervising the operation of the MPF industry. Its most important role is to proactively serve the public and protect scheme members' interests.

In charting the course of the organization in fulfilment of this role, I am fortunate to have the unfailing support of a dedicated Board that provides great insights on strategic issues, and the valuable advice of the MPF Schemes Advisory Committee and the MPF Industry Schemes Committee.

As we move into the development phase of eMPF by way of preparing for the Platform, I must express my heartfelt appreciation to the Government for its full support for the project. I am grateful that the industry has shown great commitment and actively contributed ideas regarding the future operation of the platform.

My special thanks go to members serving on the Steering Committee on the Centralized Platform Project, who will play a significant role in providing steer to this important initiative that will change the entire MPF ecosystem and ultimately benefitting over 4 million scheme members.

Finally, my sincere appreciation goes to the staff members of MPFA who, under the leadership of the Managing Director, Ms Alice Law, discharge their duties with enthusiasm and professionalism. On top of their usual regulatory and supervisory work, many of them have taken on additional workload to support the preparation for the eMPF Platform project. To them I owe a big thank you.



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