



強制性公積金計劃管理局
MANDATORY PROVIDENT FUND
SCHEMES AUTHORITY

Mrs Ayesha Macpherson Lau
Chairman



Chairman's Statement

MPF of the People, for the People

"Our goal is both inspiring and simple. Ultimately, it is about delivering a better life for the people." This remark in President Xi Jinping's 2024 new year message aptly describes the purpose of MPFA's work, that is to make the MPF System a better retirement savings system for the working population in Hong Kong.

The work on improving efficiency, reducing cost of scheme administration, enhancing the value of investment and facilitating the accumulation of more savings are all geared towards the target of providing basic retirement protection for our people.

The MPF System capitalizes on Hong Kong's robust legal system and the diverse financial products on offer here to help scheme members accumulate savings in a secure manner for retirement. This aligns with the path of financial development in the Mainland, which adopts a people-centric approach, sticks to the fundamental purpose of serving the real economy and takes preventing and controlling risks as the eternal theme of financial work.

Entering the Digital Era

The most important development of MPFA's work in the year 2023–24 is the significant progress of the eMPF Platform project. By the time you read this message, the MPF System will have entered a new stage of development with the launch of the eMPF Platform.

For over two decades since the implementation of the MPF System, administration of MPF schemes has been operating under a decentralized landscape. As at the end of March 2024, over 11 million accounts of 4.75 million scheme members were administered by 12 MPF trustees on different scheme administration platforms. Scheme members with multiple accounts under different schemes had to manage their MPF with different trustees separately. A significant portion of the administration processes was manual and paper based. All through the past two decades, this has added to the dissatisfaction of our scheme members and the cost of administration.

Now, these pain points will soon be all gone! With the development of the eMPF Platform completed for trustee onboarding, the first trustee migrated the member account data of its MPF scheme to the Platform in June 2024. When onboarding of all trustees to the Platform completes, expected by end 2025, there will be one common and integrated electronic platform to handle MPF scheme administration work, thereby enhancing operational efficiency, reducing administration cost and providing one-stop hassle-free user experience for scheme members and employers.

I am pleased to learn the positive comments of those who participated in pre-launch trial use sessions, including Legislative Council Members, representatives from labour unions and employers' associations, etc., who commended the Platform as convenient and easy to use. The project team will make further refinements to the user experience on the basis of the comments of different user groups, and step up public engagement and education on the use of the Platform to facilitate smooth transition.

Enhancing Value

With its fee reduction effect, the launch of the eMPF Platform is an important step in MPFA's efforts to enhance the value of scheme members' MPF savings.

MPF Fees

The net return of MPF investments is affected by the fees charged on managing MPF. Over the years, measures facilitating the working of market forces, such as enhanced disclosure, the provision of tools for fee comparison, the introduction of the Employee Choice Arrangement and the fee-controlled Default Investment Strategy, have helped bring down fees. The average fund expense ratio has come down from 2.1% in 2007 (when the said ratio was first introduced) to 1.41% as at 31 March 2024, a substantial reduction by one third.

With administration procedures of all MPF schemes centralized and digitalized through the eMPF Platform, scheme administration cost will be reduced. As required by the MPF legislation, there will be "straight pass-on" of cost savings and corresponding fee reduction¹ to directly benefit scheme members after MPF schemes get onboard the eMPF Platform.

Other than scheme administration fee, there would be room for further reduction on such fee components as sponsor fee and investment management fee. To achieve further fee

reduction, trustees are required to review if there is room to reduce fees for their funds and submit a five-year fee reduction plan. While some trustees have plans to reduce fees for certain MPF funds, we will spare no efforts to continue to drive down MPF fee levels for the benefit of scheme members in the long run.

Governance of MPF Trustees

Regular review of fee levels, fund performance, quality of services, the range of MPF funds and suitability of MPF products is a best practice for MPF trustees in delivering value-for-money MPF schemes to scheme members. This is expounded in the Governance Principles for MPF Trustees issued by MPFA in 2018, which steer trustees in implementing a good governance framework and in acting in the best interests of scheme members.

The requirement for MPF trustees to make available an annual governance report for each MPF scheme enhances the transparency of the governance arrangements of MPF schemes and facilitates scheme members' understanding of how MPF trustees have striven to bring better value for them. An assessment of the governance practices disclosed in the first annual governance reports of all trustees, received by the end of 2023, has been conducted. Refinement of the disclosure requirements or the Governance Principles or both is being considered for further enhancement.



Chairman at MPF Symposium 2023



Chairman meets with the chairmen and board members of all MPF trustees to exchange views on the eMPF Platform project

¹ The administration fee to be charged by trustees on scheme members must not exceed the eMPF Platform fee payable by trustees to the system operator, such that the cost savings for scheme administration can be passed on to scheme members in full, and the overall fund expense ratio of MPF funds must fully reflect the cost savings to ensure that there is corresponding reduction in the overall fee level.

Sustainable Investing

Apart from value-for-money assessment, another area of assessment required to be included in the annual governance report covers trustees' sustainable investing strategies and implementation progress. As MPF is a long-term investment, material financial risks, including environmental, social and governance (ESG) risks, would impact on the interests of scheme members. Disclosure of the ESG integration strategy of MPF schemes exemplifies the governance principle of establishing and maintaining an effective risk management framework for MPF business and operations and helps scheme members understand how ESG risks are taken into account in the investment and risk management processes of MPF funds.

In terms of product offerings, it is encouraging to see that some trustees have offered ESG-themed funds under their MPF schemes. Furthermore, a mechanism of priority allocation of Government institutional green bonds to MPF funds was implemented when such bonds were issued on 1 June 2023. MPF scheme members now have greater access to ESG-themed funds. The plan to develop disclosure requirements for ESG-themed funds going forward will further enhance transparency and assist scheme members' understanding of their ESG-related features.

Investment Framework

To enhance diversification for achieving better risk-adjusted returns of MPF funds, continuous efforts have been made to expand the MPF investment universe. Over the years, the scope of permissible asset classes has been broadened to include global listed real estate investment trusts and gold exchange traded funds, more approved stock exchanges have been included, and legislation has been amended to facilitate MPF investment in debt securities issued or unconditionally guaranteed by the Central People's Government, the People's Bank of China and Mainland policy banks.

During the year, we commenced a review of the current framework of permissible asset classes for MPF purposes with a view to further facilitating the development of retirement solutions that can match individual scheme member's expectations on returns and risk appetites. To start off, a review was conducted on the MPFA's policy on permissible asset classes for MPF investment purposes. That will guide the development of proposals to refine MPF investment regulations, which will in turn facilitate diversification and enhancement of potential returns of MPF investments.

Setting Aside More

While enhancing the value of investment serves to grow scheme members' savings, equally important is to encourage more MPF contributions to help scheme members set aside more for retirement saving purposes.

Since the objective of the MPF System is to provide basic retirement protection, mandatory contribution levels were set at a moderate level. On top of mandatory contributions, scheme members and employers are encouraged to make voluntary contributions to accumulate more savings for retirement protection. Statistics show that the merits of voluntary contributions have been increasingly recognized. Total voluntary contributions to MPF schemes have grown by more than six times from \$2.3 billion in 2004 (when such data was first collected) to \$17.7 billion in 2023.

The use of a tax incentive to encourage more voluntary savings has added impetus to this growth. Since the introduction of tax-deductible voluntary contributions (TVC) in April 2019, MPF scheme members have made contributions of \$10.51 billion under the arrangement. The number of TVC accounts has grown to 76 000 as at 31 March 2024, reflecting an increase in popularity of TVC among scheme members.

Regarding mandatory contributions, there is a statutory mechanism in place to review the minimum and maximum relevant income levels not less than once every four years. This allows consideration of necessary adjustments to be made over time to better reflect changes in the earnings distribution of the population with a view to facilitating the accumulation of a reasonable amount of benefits for retirement protection. The review for the 2022–2026 cycle is currently in progress.

Under the Employment Ordinance, employers may use the benefits derived from MPF mandatory contributions made for their employees to offset severance payments or long service payments. The Government's announcement of abolition of the offsetting arrangement with effect from 1 May 2025 comes as good news to strengthen the retirement protection for scheme members, in particular grassroots workers who rely on MPF as their sole nest eggs.

The abolition of the offsetting arrangement would open up an opportunity to introduce "full portability" of MPF benefits, which could facilitate market competition and further encourage trustees to provide more value-for-money MPF funds. Research on this subject was initiated during the year.



Chairman engages with ethnic minorities, construction workers and new arrivals to exchange views on member protection issues and listen to their views on MPF

Acknowledgements

After years of planning and development, the eMPF Platform is now launched. Other reforms and refinements are also on course to enhance the value of scheme members' retirement savings. These would not have been possible without the dedication and wise counsel of my fellow Board Members. I would also like to thank Members of the MPF Schemes Advisory Committee and the MPF Industry Schemes Committee for their valuable advice.

My thanks also go to the Government for its good guidance and unwavering support, especially its policy support and financial commitment to the eMPF Platform project.

The MPF industry has continued to work closely with MPFA in preparing for transition to the eMPF Platform. I would like to express my heartfelt appreciation for their relentless efforts and significant contributions.

Various stakeholders, including labour unions, business chambers and employer bodies, have provided invaluable input to facilitate our work in better meeting the needs of scheme members. I am most grateful to them for their contributions.

The launch of the eMPF Platform will bring about revolutionary changes to the MPF ecosystem, and MPFA, as proponent of the Platform, should embrace changes itself. I would like to thank colleagues of MPFA, under the capable leadership of the Managing Director Mr Cheng Yan-chee, for their efforts to meet new challenges and strive for continuous improvements.



Ayesha Macpherson Lau
Chairman



Chairman celebrates the 25th anniversary of MPFA with key stakeholders along the MPF value chain