Mandatory Provident Fund Schemes Authority
Press conference on the Default Investment Strategy

21 March 2017

Introduction

1. Over the years, the MPFA and the Government have introduced various measures to improve the MPF System. The Default Investment Strategy (DIS), which will be launched on 1 April (next Saturday), is one of the most significant reforms.

2. The launch of the DIS is our major task this year. Preparations by both the MPFA and the trustees have already finished.

Objectives of launching the DIS

3. The DIS is designed mainly for scheme members who do not know how to manage or are not interested in managing their MPF. At present, if scheme members have not provided their trustees with any investment instructions, their MPF benefits will be invested according to the default investment arrangement (DIA) of their respective MPF schemes. The launch of the DIS will standardize the existing different DIAs.

4. The DIS was developed with reference to suggestions from experts from the Organisation of Economic Co-operation and Development (OECD) and overseas experience. It is a strategy for long-term retirement investment, balancing long-term investment risks and returns.

5. The DIS also has fee caps. Therefore, it addresses scheme members' concerns about the difficulty of making investment decisions as well as high fees.

6. After the DIS is launched on 1 April, all MPF benefits with no investment instructions will be invested according to the DIS.

7. Starting from that day, all scheme members will also be provided with new MPF products – they could choose to invest their MPF according to the DIS or in the two DIS funds.

What the DIS is

8. You should all have received a DIS Pre-implementation Notice (DPN) issued by your trustee, along with a flyer produced by the MPFA which briefly explains what the DIS is.

9. The DIS:
   - is a ready-made investment solution;
   - uses two mixed assets funds; and
   - has three key features.

10. Starting from 1 April, all 32 MPF schemes must provide a DIS which consists of two funds.

A ready-made investment solution

11. The DIS is a strategy for retirement investment that seeks to balance long-term risks and returns.

Two mixed assets funds

12. The DIS consists of two mixed assets fund:
   - Core Accumulation Fund (CAF): adopts a more aggressive investment approach with 60% of its assets invested in higher-risk assets (mainly global equities), and the rest in lower-risk assets (mainly global bonds).
   - Age 65 Plus Fund (A65F): adopts a more conservative investment approach with 80% of its assets invested in lower-risk assets and 20% in higher-risk assets.

Three key features

13. The DIS has three key features. First, it will automatically reduce the investment risk of members' portfolio as they approach retirement age:
   - When they are under 50, their whole MPF is invested in the CAF.
   - Once they turn 50, their portfolio is automatically adjusted to reduce their investment in the CAF and increase that in the A65F (by 6.7 percentage points) every year. For example, on scheme members' 50th birthday, 93.3% of their MPF benefits will be invested in the CAF and 6.7% in the A65F.
   - On their 64th birthday, all their MPF benefits will be invested in the A65F.

14. The second key feature is that the DIS fees are capped:
   - The management fees must not be more than 0.75% of the net asset value of the fund per annum; and
   - The recurrent out-of-pocket expenses must not be more than 0.2% of the net asset value of the fund per annum.

15. In other words, the total fees and expenses charged by the DIS funds will be about 0.95%, much lower than the current 1.57% average Fund Expense Ratio of all funds.

16. And the third key feature is that the DIS funds must invest in a globally diversified

manner to minimize investment risk.

Work of the MPFA

17. The MPFA and the trustees have completed all preparations for the DIS.

18. MPF schemes are managed by the trustees. The trustees have a statutory duty to meet all legislative requirements, including re-investing all MPF benefits without investment instructions according to the DIS after the commencement of the new legislation.

19. The MPFA has set out detailed codes and guidelines on the DIS and has instructed the trustees to, among others, put in place proper computer systems, procedures and internal controls, provide appropriate staff training and carry out tests and audits in order to comply with all the legal provisions.

20. After the launch of the DIS, the MPFA will continue to monitor the trustees' service and compliance standard.

Changes resulting from the new DIS legislation

21. The new legislation requires the trustees to, after 1 April:
    - Offer a DIS with two funds, CAF and an A65F, in each scheme;
    - re-invest all accrued MPF benefits that do not have any investment instructions according to the DIS, instead of the DIA[1]; and
    - Invest all new MPF benefits that do not have investment instructions according to the DIS.

Impact of the new legislation on account holders

22. Many scheme members are concerned about the impact of the DIS legislation on their MPF investments when the legislation comes into effect on 1 April.

23. The accounts that will be most affected are those that do not have any investment instructions and whose benefits are currently invested according to the DIA.

24. According to figures provided by the trustees, as at the end of January 2017, there were about 9.3 million MPF accounts. But there are only 4.1 million scheme members. This means each scheme member holds more than one MPF account on average. It is likely that some have two or more accounts, and that some of the accounts have

[1] If scheme members turn 60 before 1 April, even if they have not given any investment instructions, their MPF benefits will continue to be invested in the same way as the original DIA of the scheme.

investment instructions while some do not.

25. There are generally four types of MPF accounts:
    - Type 1 : 610,000 accounts that have no investment instructions
    - Type 2 : 3 million accounts which do not have investment instructions for new benefits
    - Type 3 : 5.69 million accounts with investment instructions
    - Type 4 : accounts opened after 1 April

i) __Existing accounts without investment instructions__

26. As we just mentioned, there are currently about 610,000 MPF accounts without any investment instructions which hold about $8.2 billion in assets. This is the latest figure provided by the trustees and is lower than the figures we cited earlier. The number has dropped, mainly because some account holders have given investment instructions after being repeatedly reminded to do so by the trustees and the MPFA.

27. The benefits in the remaining 610,000 MPF accounts with no instructions are currently invested according to the DIA of the 32 schemes and, after 1 April, will in general be re-invested according to the DIS.

28. To protect the interests of these account holders, the law stipulates that the trustees must provide them with an opt-out arrangement.

Opt-out arrangement

29. The trustees have to send these account holders a DIS Re-investment Notice (DRN) within six months after the DIS is launched on 1 April. The trustees posted their DRN issuance schedules on their websites yesterday (20 March) and they will send out all the DRNs by the end of April.

30. The DRN is a statutory notice. The envelopes in which the DRNs are sent will have not only the DIS icon, but also the words “Statutory Notice, Please Read!” to draw the attention of the 610,000 account holders to the DRNs and to remind them to read this very important document.

31. An MPFA flyer will also be included with the DRN. Using plain language and cartoons, the flyer explains the options available for the recipients in an easy-to-understand manner.

32. The account holders should read the DRN carefully. If they find the DIS suits them, they do not have to take any action. But if they do not want their MPF to be invested according to the DIS, preferring instead to stick to the original DIA of their scheme,

they should complete the Option 2 Form, which will be included with the DRN, and return it to their trustee on or before the date specified in the DRN (the 42nd day after the issuance of the DRN). Otherwise, the trustees will re-invest the MPF benefits according to the DIS instead of the DIA.

33. If account holders return the Option 2 Form by post, they should allow sufficient mailing time as their trustee has to receive it before the deadline.

34. Account holders who recall they have not given any investment instructions to their trustees, and those are unsure whether they have done so, and do not receive a DRN by early May should contact their trustees immediately.

35. Here is an example. On 5 April, a trustee sends a DRN to an account holder who has never provided any investment instructions. If the account holder wants to opt out of the DIS, he should complete the Option 2 Form, which must reach the trustee within 42 days after the issuance of the DRN, that is, on or before 17 May.

36. If the trustee has not received the Option 2 Form from the account holder by the deadline, the accrued MPF benefits in the account will be re-invested according to the DIS within 14 days after the deadline (that is, on or before 31 May).

37. If the trustee receives the Option 2 Form only after the deadline (that is, after 17 May in this case), the trustee is required to first re-invest the MPF benefits according to the DIS before executing the investment instructions.

38. If the account holders do not intend to opt out of the DIS, they do not have to fill in any forms. The trustee will re-invest the benefits in their accounts according to the DIS, as the law requires.

Factors to consider

39. The MPFA would like these account holders to note the following:
    - After receiving the DRN, they should find out which funds their MPF benefits are currently invested in. The DRN will provide information on the DIA funds. If they have any questions, they should contact their trustee.
    - The risk and fee levels of the DIAs are different from those of the CAF or A65F.
    - They should consider their personal needs and risk tolerance level before deciding whether to choose the DIS.

40. We just talked about the 610,000 accounts whose accrued benefits will be re-invested according to the DIS after 1 April if the account holders do not opt out.

41. They are the only type of accounts whose accrued benefits will be affected. The accrued benefits of the rest of the accounts will not be affected.

ii) Existing accounts without investment instructions for new benefits

42. The second type of accounts is the 3 million accounts which do not have any investment instructions for new benefits. Most of them are what we called "auto-preserved accounts", which are personal accounts automatically created when scheme members do not manage their contribution accounts after leaving their job.

43. Starting from 1 April
    - the accrued benefits in these accounts will be invested in the same way as before, that is, according to the original investment instructions.
    - However, since the account holders have not given any investment instructions for new benefits put into these accounts, if there are any after 1 April (for example if scheme members consolidate the benefits from different accounts into this personal account), they will be invested according to the DIS.

44. The MPFA has instructed the trustees to take a number of measures to confirm the investment instructions of these account holders and the trustees started to contact them in the second half of 2016.

45. These account holders will not receive a DRN. But if the accounts receive new MPF benefits, the trustees will try to contact the account holders again.

iii) Existing accounts with investment instructions

46. The third type is the 5.69 million accounts which already have investment instructions for their accrued and new benefits. All the benefits in the accounts will continue to be invested according to the account holders' original investment instructions.

iv) Accounts opened after 1 April

47. For MPF accounts opened after 1 April 2017 (e.g. when school leavers enter the job market, or when scheme members find a new job or open personal accounts to consolidate their MPF benefits), if the account holders do not provide any investment instructions, their MPF benefits will be invested according to the DIS.

DIS is also an investment choice

48. We just talked about what trustees should do under the law with regard to the MPF benefits without any investment instructions.

49. But the DIS is also a new product available to all scheme members. Scheme members can choose to invest according to the DIS or in its two funds.

50. Starting from 1 April, scheme members will have more investment choices:
   - the DIS;
   - or the two DIS funds – the CAF and the A65F.

51. Scheme members can make a choice based on their investment preferences, risk tolerance level or other factors.

52. To help scheme members understand the DIS, a DIS Fund List will be added to the MPFA website on 1 April, providing information on the current management fees of all the CAFs and A65Fs and links to the offering documents of all schemes.

Ready to launch

53. Since the DIS is a significant reform of the MPF System and will affect all scheme members, the MPFA started to roll out different publicity and education activities soon after the DIS legislation was passed in mid-2016. The programmes include:
   - TV and radio Announcements in the Public Interest and an infographic video;
   - Advertisements on different platforms;
   - Leaflets and flyers; and
   - Briefings for different sectors

54. The MPFA has also launched a thematic website on the DIS: http://minisite.mpfa.org.hk/DIS/en/index.html. Scheme members are encouraged to visit the website to learn more about the DIS.

55. The call centres of the MPFA and all the trustees have geared up to receive calls from the public.

56. One might ask how the MPFA will measure the success of the DIS.

57. A key objective of the DIS is to provide scheme members who do not know how to manage or are not interested in managing their MPF with an investment strategy that is suitable for long-term retirement investment.

58. Therefore, our targets are:
   - The MPF benefits in the accounts without investment instructions (that is, the 610,000 accounts) which are currently invested according to the DIA are smoothly re-invested through the DIS.
   - The fee caps of the DIS will set a benchmark for other funds and result in greater competition among MPF providers, therefore driving fees further down. We have in fact seen some promising results, and the Government and the MPF will review the fee cap levels within three years after the launch of the DIS.
   - The introduction of the DIS will foster greater understanding of the MPF System

and MPF investment among scheme members, prompting them to pay more attention to their MPF and to take control of it.

59. The MPFA would like to provide all scheme members with three final tips:
    i) Pay attention to and read all the DIS-related notices (including DPN and DRN) carefully and take note of the information provided by the MPFA.
    ii) Review your MPF accounts, be sure you know what instructions you have given, and make sure your trustees have your latest correspondence address.
    iii) Contact your trustees if you have any questions about your accounts or investment instructions.

Closing remarks

60. In this year's Policy Address, the Chief Executive set out his vision for the MPF System and the measures to refine it. He also reaffirmed the role of the MPF System as part of Hong Kong's multi-pillar retirement protection system.

61. The soon-to-be-launched DIS, with fee caps, is a major reform of the System.

62. Just as with any other reforms, the successful introduction of the DIS will require the concerted efforts of the Government, MPFA, trustees and scheme members. While the Government fully supports this initiative and the trustees have been working closely with us, we urge all 4.1 million scheme members to act now and spare some time to take care of their MPF. It is hoped that with all four parties working together, the MPF System will provide better retirement protection for all scheme members.

— Ends —