Administrative and I.T. Challenges for Russian Authorities
(Room Document N°1, Session 8)

Experience Sharing of MPF System
(Hong Kong, China)

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Brief Introduction to MPF System (1)

• World Bank “Three-Pillar” system to provide retirement protection:
  – Publicly managed, tax-financed social safety net
  – Mandatory, privately managed, fully funded contribution scheme
  – Voluntary personal savings and insurance

• MPF System is Pillar 2

• Operative since 1 December 2000
Brief Introduction to MPF System (2)

Main Features:

– Trust-based schemes
– Privately managed by trustees
– Regulated by MPFA
– Coverage: Members of workforce aged between 18 and 65
  
  • Employees
  • Self-employed persons
Brief Introduction to MPF System (3)

• Main Features (continued):
  – Employer-based system:
    • Choose MPF scheme
    • Enrol employees
    • Deduct contributions from employees’ wages
    • Remit contributions to trustees
    • Issue pay records to employees
    • Notify trustee of employee movement
    • *Number of MPFA’s counterparts: 230,000 employers instead of 2 million employees*
    • *Over 90% of employers are small enterprises*
      – less than 10 employees
      – simple, cash-based operations
Brief Introduction to MPF System (4)

• Main Features (continued):
  – Mandatory contribution / voluntary contribution
  – Portability of benefits when changing employment
  – Withdrawal of benefits in prescribed circumstances, e.g.:
    • Attaining age 65
    • Total incapacity / Death
    • Permanent departure from Hong Kong
Remittance of Contributions by Employers to Trustees (1)

- Employers remit contribution monies and provide remittance statements to trustees
  - Remittance statements show income and contribution details of each employee
Remittance of Contributions by Employers to Trustees (2)

- Payment of contribution monies:
  - By cash at bank counters
  - By cheque, by post or collection box
  - Through direct debit from employers’ bank accounts

- Provision of remittance statements:
  - By post
  - Collection box at banks/insurance companies
  - Electronic means
Remittance of Contributions by Employers to Trustees (3)

- Densely populated city with plenty of bank branches: banking facilities are easy to access
- Employers are conversant with using banking facilities
- Contributions collection convenient in Hong Kong
No Need for Clearing House

• Many employers make contributions in cash

• Most banks are market participants

• No need to design a clearing system specifically for MPF contributions purpose
Contributions Processing by Trustees

- Fiduciary duty of care
- Receive contributions
- Check arithmetic calculations of contributions
- Rectify with employers on contribution discrepancies
- Credit contributions to members’ individual accounts
- Notify MPFA of default contributions
  - *Collection, administration and record-keeping by trustees, not MPFA*
Initial Administration Challenges (1)

- Error-prone on employer side, owing to:
  - Rounding-off discrepancies of contribution amounts
  - $5,000 and $20,000 income limits
  - Pro-rating calculations for initial contribution periods
  - Mismatch between contributions calculated and remitted
  - Reporting new / resigned employees
- Time consuming for trustees to verify calculations and rectify with employers
Initial Administration Challenges (2)

• Consequences:
  – Resources spent on cross-checking of contributions with employers individually
  – Delay in allocating and investing contribution monies
  – Potential loss of investment return
  – Public resentment of the MPF System

• Problems mitigated with experience and standards promulgated by MPFA
Information Technology - MPFA’s System

- I.T. development: start from scratch
  - Needs uncertain before actual operation
  - Have been making modifications since operation
- No need for sophisticated computer system for MPFA
  - Employer and member information stored by individual trustees
Information Technology - Suggestions

• Computer system development
  – Start with small scale system on Day 1
  – Identify needs as pension program develops
  – Develop a comprehensive I.T. system when pension program stabilizes 3-4 years later

• Be prepared for delay in system development
Information Technology - Trustees’ System

- Launched in sync with MPFA’s I.T. system
- A major investment item of trustees
- Developed by individual trustees in-house or by a few I.T. vendors in the market
- Still have problems after several years of operation (due to problems unforeseeable at the time of planning)
  - Continuous review, adjustment and upgrading
Information Technology - Linkage between MPFA and Trustees

- Leaseline system $\Rightarrow$ enhanced security
- Convenient and secured means of communication
- Facilitate submission of regular returns and default contribution reports by trustees to MPFA
- Facilitate referral of complaint cases by MPFA to trustees for follow-up
QUESTIONS?
~ THANK YOU ~