

# **Administrative and I.T. Challenges for Russian Authorities**

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## **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 ~**