



Mandatory Provident Fund System and Retirement Protection of Hong Kong, China

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Public and Private Components of Retirement Protection in Hong Kong, China

Pillar	World Bank	Retirement Protection in Hong Kong
0	Non-contributory, publicly financed and managed system	Comprehensive Social Security Assistance (CSSA) Scheme and Social Security Allowance (SSA) Scheme
1	Mandatory, contributory and publicly managed system	Nil
2	Mandatory, privately managed, fully funded contribution system	Mandatory Provident Fund (MPF) System Occupational retirement schemes (including those for civil servants and teachers)
3	Voluntary savings	Voluntary contributions to MPF; Retirement savings-related insurance
4	Informal support, other formal social programmes, and other individual assets	Public housing & healthcare; Annuity; Residential and community care services; Public transport fare concession; Community Care Fund's elderly programmes; 2 Family support and self-owned properties



Public Components: Government's Subsidized Benefits for the Elderly

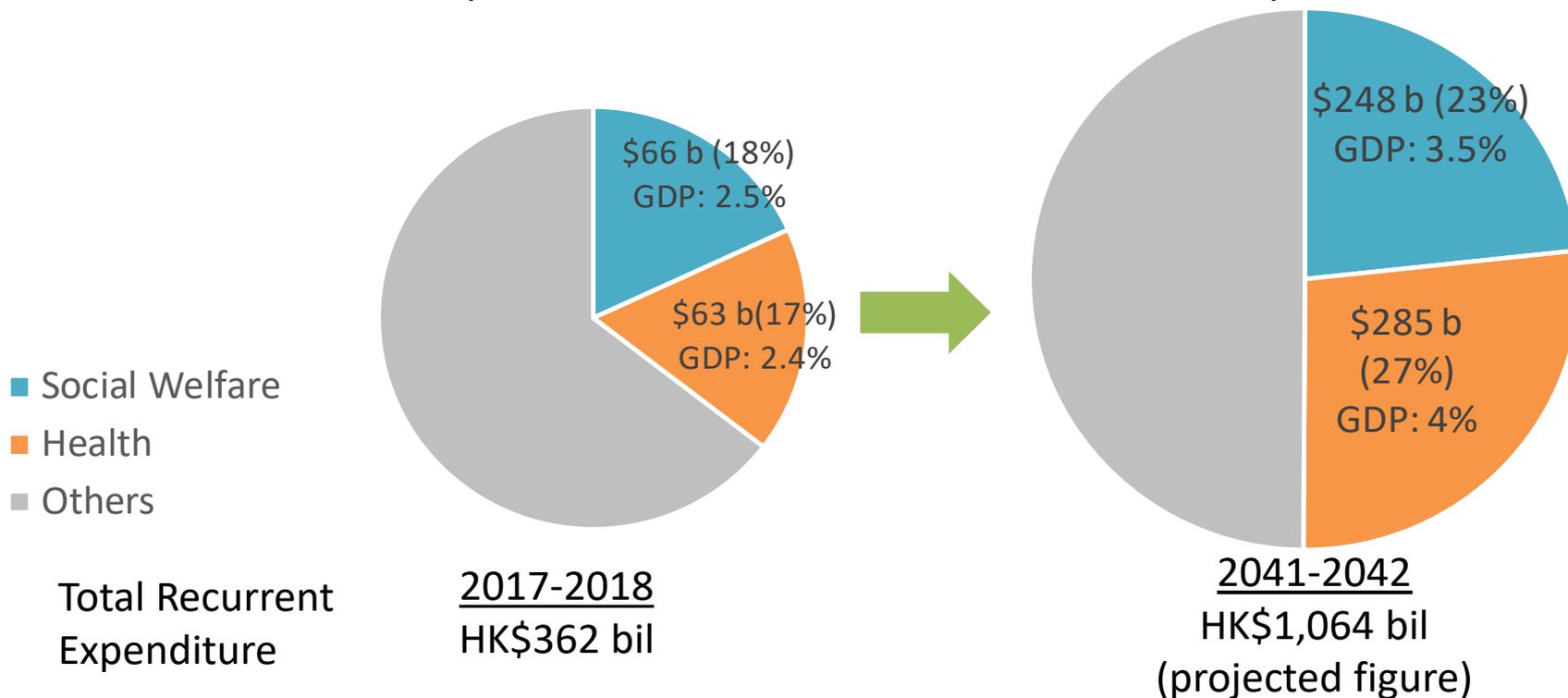
- Elderly receiving cash allowance mostly based on needs; most public services available for all elderly

	Cash assistance (CSSA & SSA e.g. old age allowance, old age living allowance)		\$2 transport fare concession
	Public housing & residential homes for elderly		Home/ community care services
	Public healthcare; Elderly healthcare voucher		Community Care Fund's elderly programmes



Public Components: Long-term Fiscal Pressures on the Government

□ Recurrent social welfare and health expenditure by the Government (assume no service enhancement)



References:
The Treasury, The Government of the Hong Kong Special Administrative Region;
The 2018-19 Budget; and
Report of the Working Group on Long-Term Fiscal Planning (2014). 4





Private Component: MPF System

- Launched in December 2000
- Designed to supplement other pillars
- Availability of MPF:
 - Reduces the risk of over-reliance on the public components of retirement protection; and
 - Reduces the fiscal pressures on those public components





MPF System: Key Features

- ❑ Mandatory participation (except for exempt persons)
- ❑ Privately managed (investments not government managed)
- ❑ Managed under trust
 - savings protected from employer insolvency
- ❑ Employment based
- ❑ Fully funded
 - financially sustainable (not dependent on government financial situation)
- ❑ Defined contribution (DC)
- ❑ Trustees/schemes chosen by employers*; funds chosen by employees
- ❑ Decentralised administration

* Under the Employee Choice Arrangement, employees have the right to transfer part of their accrued benefits to a scheme of their choice.





Financial Inclusion Brought about by MPF

- Help the workforce develop investment discipline
- Enable individuals with only small sums to invest in quality products
 - different markets and diversified portfolios
 - stringently regulated financial products managed by major financial institutions
- Enhance financial literacy & self-preparation for retirement
 - scheme members acquire basic investment knowledge by managing their MPF accounts
 - may apply their accumulated knowledge in managing and growing their other investments





How Does MPF Contribute to Retirement Protection?

World Bank's Outcome-Based Assessment Framework

Outcomes	Definition
Coverage	Maximizing the participation of the working-age population in private pension schemes
Sustainability	Ensuring that the promised retirement income will be delivered
Security	Minimizing the risk of loss or misappropriation of pension assets before they are withdrawn by members
Adequacy	Ensuring people accumulate retirement benefits that could protect them from poverty; allow them to share in increased prosperity; and protect them from a severe drop in living standards at retirement
Efficiency	Maximizing net-of-fee returns by improving investment performance subject to acceptable risks





How Does MPF Contribute to Retirement Protection? (Con't)

Outcomes	Performance of the MPF System
Coverage	<ul style="list-style-type: none">• Very high enrolment rate (100% for both employers and employees)
Sustainability	<ul style="list-style-type: none">• Sustainable by design (mandatory, privately managed, fully funded and DC schemes)
Security	<ul style="list-style-type: none">• Safeguarded by the sound legal and financial systems as well as regulatory and supervisory regime of MPF
Adequacy	<ul style="list-style-type: none">• Only serves as one of HK's retirement protection pillars• Public concerns about being insufficient for retirement
Efficiency	<ul style="list-style-type: none">• Strive for greater efficiency and lower costs of the MPF System• Public concerns about fees and returns

Major challenges faced by MPF





Adequacy – Strengths of MPF

- ❑ Mandatory participation by workforce (i.e. high coverage)
- ❑ Provision of basic retirement protection
 - mandatory contribution: 5% from employer and 5% from employee
 - moderate contribution rate: allow scheme members flexibility to save through other vehicles
- ❑ Mandatory contributions keeping up with income changes
 - periodic review of minimum and maximum levels of relevant income



Adequacy – Challenges

- Raising the mandatory contribution rate and maximum level of relevant income
 - Public concern about depriving the right of scheme members to make other personal saving/investment
 - Need to build up social consensus and distill greater confidence in MPF
- Market volatility posing challenges to MPF as a long term investment
 - High equity exposure due to scheme members' preferences



Adequacy – Initiatives/Reforms

- Encourage voluntary contributions
 - Tax concession for employees to make voluntary contributions
 - Education on retirement planning

- Build up stronger public trust in MPF
 - Engagement with different stakeholders regarding the statutory review of the adjustment of maximum relevant income level
 - Improving the cost efficiency of MPF

- Introduce Default Investment Strategy
 - A retirement solution balancing the long term trade-offs between risk and return



Efficiency – Strengths of MPF

- Investment markets in Hong Kong
 - Very robust financial system
 - Ease of access to overseas markets
- Hong Kong as an international financial centre
 - Home to major banking, insurance and asset management institutions
- MPF as a privately managed system
 - Allow service providers to compete for better services and prices





Efficiency – Challenges

□ Scheme administration

- Small, irregular amounts of monthly contributions per contribution account
- Millions of transactions yearly, many involve some degree of paper-based or manual processing

□ Sub-optimal outcomes, especially high fees, due to certain market inefficiencies

- Supply side – unable to thoroughly capitalize on the benefits of economies of scale
- Demand side – absence of strong competitive pressure on prices





Efficiency – Initiatives/Reforms

- ❑ Default Investment Strategy (with fee cap)
- ❑ Low fee fund initiative
- ❑ Consolidation of schemes
- ❑ Disclosure and transparency
- ❑ Member education
- ❑ eMPF (a centralized electronic infrastructure)
- ❑ Governance of trustees





Concluding Remarks

- ❑ Continuous refinements needed to live up to public expectations
- ❑ Around 85% of working population now covered by retirement schemes (before MPF: only 1/3)
- ❑ Accumulated HK\$856 billion since inception as at Aug 2018 (compared to Hong Kong's fiscal reserves of HK\$1,060.5 billion)
- ❑ Out of HK\$856 billion, 29% was investment gains
- ❑ Voluntary contributions accounting for 15% of total contributions received in 2017
- ❑ MPF in the right direction!





Thank You

