Press release

LCQ20: Review of the Mandatory Provident Fund Scheme

Wednesday, November 11, 2009

Following is a question by the Hon Frederick Fung Kin-kee and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (November 11):

Question:

Regarding the Mandatory Provident Fund (MPF) Scheme which has been implemented for almost 10 years, will the Government inform this Council:

(a) whether the authorities will comprehensively review and optimise the MPF System; if they will, of the scope of the review, whether it will include areas such as the functions and operation of the Mandatory Provident Fund Schemes Authority, reduction of management fees charged by trustees, maximum contribution and minimum level of income, failure of the system to protect low-income groups and the unemployed, as well as members of the public managing their own MPF accounts; of the general content and direction of each area under review, as well as the timeframe of the comprehensive review; if a comprehensive review will not be conducted, of the reasons; and

(b) given that it was reported that the authorities would conduct a review on matters such as the feasibility of allowing members of the public to early withdraw their MPF and partially withdraw their contributions by instalments under certain conditions, of the relevant details?

Reply:

President,

The objective of establishing the Mandatory Provident Fund (MPF) System is to assist the employed population in Hong Kong to accumulate retirement savings by means of contributions by both employers and employees (Note 1) so as to enhance their retirement protection in the future. Since the inception of the MPF System in December 2000, the Government and the Mandatory Provident Fund Schemes Authority (MPFA) have kept under review and optimised the arrangements in various areas under the existing system in light of the experience gained from actual operation and the latest market development. A total of seven bills were enacted upon approval of the Legislative Council to amend the MPF legislation to improve the operation and better carry out the objective of enhancing retirement protection for the employed population.

The major reviews conducted in recent years include the followings -

(1) On MPFA's recommendations, the Government introduced bills in 2007 and 2008 to amend the Mandatory Provident Fund Schemes Ordinance (the Ordinance). The amendments covered a number of measures aimed at enhancing the System's operational efficiency and strengthening the protection of scheme members' interests, such as:

(i) removing the exclusion of housing allowance and benefits from the calculation of "relevant income" to stop unscrupulous employers from intentionally designating a portion of the employee's salary as housing allowance or benefit so as to reduce the amount of mandatory contributions the employers are required to pay;

(ii) removing the settlement period to expedite the recovery of default contributions;

(iii) empowering the MPFA to disclose more information on MPF constituent funds to increase the transparency of the fees and charges of these funds; and

(iv) increasing the penalties, which includes:

(a) raising the maximum penalty for default contributions from a fine of $100,000 and imprisonment for 6 months on the first conviction to a fine of $350,000 and imprisonment for three years;

(b) further raising the maximum penalty for non-payment of mandatory contributions that have been deducted from employees' salaries to a fine of $450,000 and imprisonment for four years; and

(c) empowering the court to issue orders to direct employers to rectify non-enrolment and/or non-payment of mandatory contributions and contribution surcharge.

(2) As regards the proposal to allow employees to transfer accrued benefits derived from their own mandatory contributions during current employment on a lump-sum basis to a MPF scheme of their own choice, the relevant bill was passed by the Legislative Council in July this year. The purpose of the bill is to strengthen employees' control over their MPF investment and promote greater market competition, which would have a positive effect on keeping fees and charges at a reasonable level. The MPFA and the industry have started a series of preparatory work, aiming to implement the proposal in early 2011.

(3) The MPFA is committed to increasing the transparency of MPF fees. It launched a web-based Fee Comparative Platform in two phases in July 2007 and October 2008 respectively to provide information about the highest, lowest and average fund expense ratios by fund types as well as the fees and charges of individual funds. The MPFA will continue to keep track of the market development and consider the need to step up efforts in this regard.

(4) To encourage people to manage their own MPF accounts, the Mandatory Provident Fund Schemes (Amendment) Ordinance 2009 (Amendment Ordinance) (Note 2) has provided for an arrangement allowing the MPFA to inform individual scheme members in writing of the number of their personal accounts under different trustees, so as to remind them to consider consolidating their accounts. The MPFA plans to review the situation after the Amendment Ordinance has come into operation for a period of time and explore suitable ways to advise scheme members on consolidating their accounts.

Looking ahead, the MPFA will review the adequacy of the contents of the information disclosed and the channels of disclosure of information to scheme members. The MPFA will also review the existing arrangement under the Ordinance whereby, unless in specified circumstances (including early retirement at the age of 60, death, permanent departure from Hong Kong, total incapacity and accounts with accrued benefits of less than $5,000), scheme members are not allowed to withdraw their accrued benefits before reaching the age of 65, as well as whether scheme members who have reached the retirement age of 65 should be allowed to withdraw their accrued benefits by phases. The MPFA aims to complete the relevant internal review in 2010 before deciding the next steps.

In addition, the MPFA plans to conduct a review of the minimum and maximum relevant income levels in accordance with the Ordinance in 2010, and will consult the Legislative Council on the review findings.

Note 1: If the monthly income of an employee is less than $5,000 (i.e. the minimum level of relevant income), the law requires only the employer to make contribution.

Note 2: That is the Amendment Ordinance mentioned in (2) above. The Ordinance is scheduled to come into operation in early 2011.

Ends