

Press release

LCQ17: Proposed discontinuation of the Mandatory Provident Fund Scheme

Wednesday, March 16, 2011

Following is a question by the Hon Paul Tse Wai-chun and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (March 16):

Question:

On December 1 last year, this Council passed a motion on "Comprehensively reviewing the Mandatory Provident Fund Scheme". The proposal of the Government in the Budget announced last month that \$24 billion be earmarked for making an injection of \$6,000 into each Mandatory Provident Fund (MPF) account has aroused widespread and strong opposition from the community. There have been comments that the incident has reflected a complete loss of confidence of the public in the MPF Scheme, and that although the Government's policy intention for implementing the MPF Scheme is to ensure a long-term commitment for retirement protection and to maintain social stability, the MPF Scheme has proved to be a great failure after implementation for over a decade which showed a high level of fees and low rate of return. In this connection, will the Government inform this Council:

(a) since the implementation of the MPF Scheme, of the average return for each MPF account, and the respective amounts of fund management fees, administration fees and trustee fees earned by MPF service providers from each MPF account on average; and

(b) whether it will examine and consider discontinuing the MPF Scheme so as to return wealth to the people and give them greater freedom of choice, as well as to uphold the governance principle of maintaining "a small government"; if it will, of the specific plans; if it will not, the reasons for that?

Reply:

President,

Since inception of the MPF System on December 1, 2000 and up to December 31, 2010, the annualised internal rate of return after deduction of fees and charges is 5.5%, whereas the increase of the annualised Composite Consumer Price Index during the same period is 0.7%. This demonstrates that the MPF System is effective in assisting the working population to accumulate retirement savings.

Since 2007, the Mandatory Provident Fund Schemes Authority (MPFA) has provided the Fee Comparison Platform on its website which provides information on all major fees items (including fund management fees, administration fees and charges by trustees) as a percentage of the asset value of the relevant MPF funds (i.e. Fund Expense Ratio (FER)) for reference of scheme members. The relevant figures are at Annex.

In recent months, some trustees have reduced the fees and charges of existing MPF schemes/funds and introduced new schemes/funds with lower fees and charges. The impact of these measures will be reflected in the figures in the coming year.

The MPF System was introduced only after long and thorough community discussions which resulted in some common views on the way forward. Its aim is to assist the working population to accumulate retirement benefits through contributions from employers and employees. Before the implementation of the MPF System, only one-third of Hong Kong's working population were covered by some form of retirement protection. As at end December 2010, the MPF System has accumulated assets of over \$365.4 billion for more than 2.52 million employees and self-employed persons. Together with other retirement protection schemes, around 90% of the working population have now participated in some form of retirement protection schemes. Besides, voluntary contribution as a percentage of total MPF contribution has been increasing every year from 8.6% in Q2 2003 to 15.9% in Q4 2010. This indicates that the working population have been saving for their retirement through MPF Schemes more proactively.

Overall speaking, the MPF System has made contributions to enhancing the retirement protection of the working population in Hong Kong. The Administration and the MPFA will continue to review and improve the operation of the MPF System.

Ends