

Press release

LCQ3: Mandatory Provident Fund Scheme

Wednesday, March 16, 2011

Following is a question by the Hon Kam Nai-wai and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (March 16):

Question:

It has been reported that one of the reasons for the public outcry over the Financial Secretary's recent proposal in his 2011-2012 Budget of injecting \$6,000 into each Mandatory Provident Fund (MPF) account is that quite a number of members of the public consider the management fees and administration fees charged by MPF trustees to be very high. For example, there has been an MPF account with a contribution of \$6,000 yielding a return of \$1.07 only in two years but the management fee for the same period was as high as \$140, or 140 times of the former. In this connection, will the Government inform this Council:

(a) of the number of trustees in the market at present, whether it knows the highest and lowest amounts of management fees and administration fees charged by them; how the Government will further improve and regulate those fees; whether it has any plan to introduce legislation to regulate them; if it has, of the progress; if not, the reasons for that;

(b) whether the Employee Choice Arrangement (ECA) for MPF schemes can be implemented within this year as scheduled; of the progress of the relevant efforts, the measures to be taken by the Government to ensure that following the implementation of ECA, the trustees will engage in healthy competition, prompting them to lower their management fees and administration fees, and how it will ensure that the trustees and the intermediaries will maintain good service quality; and

(c) since it was reported that the Chairman of the MPF Authority had said that in view of Hong Kong's aging population and difficulties in livelihood faced by some elderly people, the Government needed to assess if the livelihood protection provided to retirees was sufficient, whether the Government has commenced a study on the establishment of a universal retirement protection system; if it has, of the progress; if not, the reasons for that?

Reply:

President,

My reply to the three parts of the question is as follows –

(a) At present, there are 19 approved MPF trustees. The Administration and the Mandatory Provident Fund Schemes Authority (MPFA) have been taking measures such as enhancement of market transparency and increase in market competition with a view to bringing about adjustment in the fees of MPF funds through market forces. Since 2007, the MPFA has provided the Fees Comparative Platform on its website to provide major fees information of all MPF funds for the reference of scheme members. Through the platform, scheme members can have access to information on the fees charged by the funds they have chosen and compare their performance and fees with those of other funds, which will assist them in the making of choices that suit their needs.

On enhancing market competition, in addition to the ECA mentioned in part 2 of the question which will increase employees' choice and market competition, the MPFA will continue to issue letters to employers encouraging them to provide more than one MPF schemes for their employees. The MPFA will also step up education and publicity work.

The above measures have achieved certain impact on fees reduction. The Fund Expense Ratio for the period from April 2009 to March 2010 was 1.85%, which was more than 10% lower than the 2.1% for the period from April 2006 to March 2007. In the past three years, all MPF trustees have reduced fees, and more than half of them have reduced fees more than once. We also noticed that some trustees have reduced the fees of existing funds/schemes or introduced new MPF funds/schemes with lower fees in recent months. On this basis, the Administration and the MPFA will continue to make use of market forces to encourage MPF trustees to adjust their fees levels.

(b) The Administration and the MPFA are preparing legislative proposals to strengthen the regulation of MPF intermediaries and will brief the Legislative Council Panel on Financial Affairs and commence consultation work in April. We expect to introduce the Bill into the Legislative Council this year with a view that the ECA can be implemented as soon as possible next year. In addition, the MPFA have commenced the preparatory work for implementation of the ECA. They include ensuring the alignment of the various systems of the MPFA and trustees, strengthening MPF investment education to assist employees to make choices that suit their needs, and strengthening the training and regulation of MPF intermediaries.

We believe that in anticipation of the implementation of the ECA, trustees have started to become more competitive. Some trustees have already reduced fees or introduced new MPF funds with lower fees. The MPFA will monitor the development closely.

As for ensuring the service quality of trustees, the MPFA have been implementing measures such as on-site inspections, review of reports submitted by trustees, and handling complaints against trustees, and have been taking appropriate follow-up actions.

(c) On the question of universal retirement protection, as the Secretary for Labour and Welfare explained at the meeting of the Panel on Welfare Services on January 10, 2011, Hong Kong has adopted a three-pillar model of retirement protection: the non-contributory social security system (including Comprehensive Social Security Assistance (CSSA), Old Age Allowance (OAA) and Disability Allowance), the MPF System which was introduced in 2000 after careful and extensive discussions in the community, and voluntary private savings. The Administration has been monitoring closely the operation of this model in the light of Hong Kong's changing socio-economic circumstances and has introduced enhancement measures as necessary. A recent example is the increase in the level of OAA to \$1,000 with effect from January 2009. The Financial Secretary also proposed in his 2011-12 Budget to increase subsidy to senior citizens under the CSSA Scheme. On the other hand, the Administration and the MPFA have been reviewing and improving the operation of the MPF System.

The Central Policy Unit (CPU) is refining its study on the sustainability of the three-pillar model of retirement protection in Hong Kong having regard to the latest developments. In the process, CPU will take into account the opinions of the community on retirement protection for the elderly and tap the views of academics, professionals, think tanks and relevant stakeholders. In considering the way forward, the Administration will take into account the findings of the study and other pertinent factors such as how to ensure the sustainable development of the social security system, safeguard traditional family values, and maintain our overall economic competitiveness as well as simple tax system.

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