Press release

LCQ20: Charging rates of Mandatory Provident Fund schemes

Wednesday, June 6, 2012

Following is a question by the Hon Paul Tse and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (June 6):

Question:

It has been reported that employees and self-employed persons in Hong Kong paid $6.35 billion a year to Mandatory Provident Fund (MPF) trustees at a charging rate as high as 1.74%, which is the highest among comparable developed countries (including Singapore, Australia, the United Kingdom and Chile). The fund manager quoted in the report even pointed out that a charging rate of 1.8% was absolutely high, and the performance of MPF in the past few years had been far from satisfactory, always resulting in losses rather than gains, and that the Government had to take actions to prevent the trustees from maximising their profits, especially because the profits generated from this business would become increasingly substantial towards the later stage. In this connection, will the Government inform this Council:

(a) whether the Government has looked into the reasons why MPF charges at present are the highest among the aforesaid regions; whether it has assessed if MPF charges are reasonable; whether it has assessed the implementation of MPF and considered the abolition or otherwise of the entire MPF Scheme based on the level of satisfaction towards MPF charges and the effectiveness of the entire Scheme of members of the public; if it has, of the outcome of such assessment; if not, the reasons for that and whether it will conduct an assessment as soon as possible;

(b) whether it has estimated the level to which MPF charges may be lowered under the "MPF Semi-portability" (i.e. the "Employee Choice Arrangement") policy; and

(c) of the new policy and measures in place, besides the "MPF Semi-portability" policy, to expeditiously lower MPF charges so as to protect the contributions of members of the public?

Reply:

President,

(a) The Mandatory Provident Fund (MPF) System was introduced only after the community has had prolonged discussion and reached a consensus. It aims to assist the working population to accumulate retirement savings through contributions from employers and employees. Before the implementation of the MPF System in 2000, only one-third of Hong Kong's working population were covered by some form of retirement protection. As at end March 2012, MPF schemes accumulated assets of over $390.7 billion for more than 2.58 million scheme members, comprising both employees and self-employed persons, for their retirement. Around 90% of the working population are currently covered by either MPF schemes or other retirement protection schemes. In addition, voluntary contribution has taken up 18.8% of the total MPF contributions in the first quarter of 2012, representing a gradual increase from 8.6% in the second quarter of 2003. This signifies the working population have taken a more proactive approach to save for retirement through MPF schemes. From December 2000 to March 2012, the annualised internal rate of return, after deductions of fees, is 3.6% which is higher than the annualised Composite Consumer Price Index change.

As a retirement protection scheme, the MPF System in Hong Kong is at its initial stage of development and needs continuous improvement. The Government and the Mandatory Provident Fund Schemes Authority (MPFA) have conducted various studies and introduced enhancement measures as part of the ongoing efforts to improve the MPF System. They mainly seek to increase market competition and transparency; to lower the operating costs of MPF schemes as much as practicable without compromising the protection for scheme members; and to improve the arrangements for withdrawing MPF accrued benefits. These measures have achieved some results.

There has been a notable reduction in the fees of MPF schemes and the Fund Expense Ratio (FER) of MPF funds. On the whole, the average FER of MPF funds has decreased from 2.1% as of January 2008 to 1.74% in 2012, representing a reduction of more than 17%. We will continue with our efforts on this front.

We believe that, with the MPF System becoming increasingly mature and with its growing scale, there should be room for further reduction in MPF fees. In this connection, we note that the industry has recently issued a consultancy study report which made comparisons among our MPF System and four similar overseas systems that have been operating for some 20 to 40 years. Based on overseas experience, with the enhancement of the system and the year-on-year increase of asset size, there should be scope for fee reduction.

(b) If the Mandatory Provident Fund Schemes (Amendment) (No. 2) Bill 2011 for regulating MPF intermediaries is enacted within this legislative session, the Employee Choice Arrangement (ECA) which benefits MPF scheme members will come into operation from November 1, 2012. It is estimated that the size of transferable MPF assets will be substantially increased from 41% of the total to 67% of the total, thereby promoting market competition and prompting trustees to actively consider fee reduction. The Government and the MPFA noticed that some trustees had indicated in public that the implementation of ECA would increase the pressure for fee reduction and they had already introduced new MPF schemes at lower fees. In the past few years, all trustees have reduced their fees and charges, with over half of them reducing their fees for more than once.

(c) As mentioned above, the Government and the MPFA have been seeking to drive down MPF fees through market forces, through various measures to increase market transparency and promote market competition, etc. Apart from introducing ECA, the MPFA launched the "Fee Comparative Platform" on its website in 2007, providing important information on the fees and charges of all MPF funds for scheme members' reference.

In addition, we are actively rolling out other initiatives. The Government has informed the Legislative Council of the intention to move a resolution to amend the Mandatory Provident Fund Schemes (General) Regulation for the introduction of an automatic levy adjustment mechanism for the MPF Schemes Compensation Fund. If the relevant amendment is passed within this legislative session, the Compensation Fund should be able to suspend the collection of Fund levy at 0.03% per annum starting from the third quarter of this year. This will be fully reflected in the FER, thereby allowing more contributions of scheme members to be put to enhance their retirement protection. Meanwhile, the MPFA has commissioned a consultancy study on the administrative costs of MPF trustees. The study involves analysis of the operation procedures, cost items and cost levels of trustees with a view to further streamlining the relevant procedures, thereby offering more room for fee reductions. The MPFA expects the consultant to submit a preliminary report in the middle of this year, and plans to put forward recommendations to the Government based on the results of the consultancy study.

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