Press release

LCQ6: Monitoring performance of Mandatory Provident Fund schemes

Wednesday, December 5, 2012

Following is a question by the Hon Martin Liao and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (December 5):

Question:

Under the Employee Choice Arrangement (commonly known as Semi-portability) which has been implemented since last month, employees may transfer the accrued benefits derived from their contributions to the Mandatory Provident Fund (MPF) schemes to the MPF schemes operated by the trustees they prefer. Some members of the public have relayed to me that they were perplexed and confused as there are many MPF schemes and types of funds available for their choices in the market. They worry that they may wrongly choose those MPF schemes with poor investment performances. However, apart from providing a comparison table on the fund expense ratios of various MPF schemes, the Mandatory Provident Fund Schemes Authority (MPFA) has all along not provided information on the comparison of the investment performances of various MPF schemes. Instead, the Consumer Council published a research report in October this year regarding the fees and rates of return of MPF schemes. Moreover, some other members of the public have also relayed to me their wish for more investment options offered by MPF schemes, so as to increase the returns. In this connection, will the Government inform this Council:

(a) whether it knows why MPFA has all along not provided information on the comparison of the investment performances of MPF schemes; whether MPFA will publish such kind of information on a regular basis, so as to assist employees and employers in making smart choices; whether it knows if MPFA will establish a monitoring mechanism to urge the trustees to improve the investment performances of the MPF schemes they manage, such as requiring trustees with continued poor investment performances to submit reports and issuing warnings to them, and considering cancellation of the registration of the trustees concerned if there is no improvement despite repeated warnings; if so, of the details; if not, the reasons for that;

(b) given that some members of the public have pointed out that the non-MPF funds under quite a number of fund investment companies have good investment performances, but the MPF schemes managed by these companies as trustees, with similar fees charged, have poor investment performances, whether it knows if MPFA has conducted studies on the aforesaid situation; if no such study has been conducted, of the reasons for that; if such studies have been conducted, of the outcome, and if such a situation does exist, whether MPFA has requested the trustees concerned to give an account for that; and

(c) whether the Government will consider reforming the MPF schemes to provide more portfolios and modes of investment for members of the public to choose, such as allowing members of the public to use their contributions as down payment for buying properties or for taking out medical insurance; if it will, of the details; if not, the reasons for that?

Reply:

President,

(a) The Mandatory Provident Fund Schemes Authority (MPFA) has launched intensive publicity advising members the factors they should take into account in making decisions as regards their Mandatory Provident Fund (MPF) investment, namely the products (including the range available, their risk level and past performance), services, fees and charges, as well as personal factors (including the investment objective and risk tolerance level of the member concerned). In this regard, the MPFA considers it important for the public to understand that past investment performance is not a reliable indicator of future performance, and hence any direct comparison between investment performance of different MPF schemes/funds should be read in proper context.

The MPFA has been publishing information on the investment returns by fund types regularly since 2006, and posted in its website the fund fact sheet of each MPF fund, which sets out performance information over the periods of one, five and ten years respectively preceding the report date. The MPFA also requires trustees to provide such performance information in a standardised presentation to facilitate comparison by interested scheme members. Moreover, there are various sources of information on the performance of MPF funds. Since 2007, the MPFA has included in its website a hyperlink to one of them, namely the website of the Hong Kong Investment Fund Association where the comparative performance information of each individual fund is provided. Starting from this month, the MPFA will host the information in its website direct. Overall, the Government does agree that the MPFA should continuously enhance the information disclosure in the MPF System, taking into account the views of the community.

On the monitoring of MPF trustees, under the Mandatory Provident Fund Schemes Ordinance (MPFSO), approved trustees must ensure that their investment managers act in the interests of scheme members and have a duty to supervise and exercise proper control over the investment managers to ensure compliance with the statutory investment requirements under the

MPFSO. The MPFA has issued guidance and instructions on how approved trustees are expected to fulfill the aforementioned duties, and the MPFA monitors their compliance through on-site visits and other supervisory means such as reviewing regular reports from them.

(b) It is worth noting that direct comparison of the fees charged by MPF funds and non-MPF funds as well as their respective investment returns cannot be fairly done. By way of illustration, the fee structure of MPF funds and non-MPF funds are quite different in that MPF funds do not charge any subscription and redemption charge as in the case of non-MPF funds, while the recurrent charge of MPF funds that covers administrative cost like collecting contributions from employers and following up on default contribution cases is not applicable in the case of non-MPF funds. As for investment returns, it is important to note that the investment strategy of MPF funds is generally more long term and risk-cautious in accordance with the investment-related requirements prescribed in the MPFSO, as compared with some other investment funds in the retail market, considering the role of the MPF System in helping scheme members start saving for their retirement needs early. Therefore it is inappropriate to make direct comparison between the short-term investment performance of MPF funds vis-à-vis non-MPF funds. This notwithstanding, according to a snapshot review of the investment performance conducted by MPFA for the period from October 2011 to September 2012, MPF funds have achieved comparable performance to non-MPF funds. This is broadly consistent with an earlier review on MPF equity funds commissioned by the MPFA, which showed that they had for the period up to end 2008 outperformed comparable authorised non-MPF equity funds and achieved comparable investment performance as that of corresponding index funds.

In this connection, the Government will work closely with the MPFA on the reform to the MPF System aimed to substantially drive down MPF fees within a reasonable time frame, which in turn will increase the return to scheme members.

(c) The MPF System is an important pillar of our retirement system, designed to help our working population start saving for their retirement early. The few systems elsewhere which provide for withdrawal of benefits for a wide variety of purposes including down-payment for buying properties have a much wider social objective beyond the ambit of our MPF System, and they are premised on considerably higher contribution rates which our community is not yet ready to take on.

In the light of operational experience gained and comments received over the past years, the MPFA has carried out a review of the regulation of withdrawal of MPF benefits earlier and completed a public consultation thereon earlier this year. There is majority support for providing an express option to withdraw MPF accrued benefits in phases upon members reaching 65, and to allow early withdrawal by members certified to have suffered terminal illness. The MPFA is drawing up the detailed legislative proposal.

Going forward, the Government will work with MPFA on the reform of the MPF System, which will include a review of the fund choices under the System. While it is important to provide scheme members with investment choices, we need to be mindful that the choices should provide real value to employees for retirement protection. We will engage the community in pursuing this review and considering other possible reforms to the MPF System.

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