Press Release

LCQ13: Fees and charges of the Mandatory Provident Fund schemes

Wednesday, April 9, 2014

Following is a question by the Hon Tang Ka-piu and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (April 9):

Question:

Regarding the fees and charges of the Mandatory Provident Fund (MPF) schemes, will the Government inform this Council:

(1) whether it knows the (i) amounts of contributions (with a breakdown according to mandatory and voluntary contributions made by employers and employees), (ii) accrued benefits withdrawn (with a breakdown according to mandatory and voluntary contributions made by employers and employees), (iii) net accrued benefits (with a breakdown according to mandatory and voluntary contributions made by employers and employees), (iv) fund expense ratios and (v) fund expenses, in each year since the implementation of the MPF Scheme;

(2) given that, as revealed by the Report on a study of administrative costs in the Hong Kong MPF system published in 2012, the three major components of MPF fund expense are investment management fees, administration costs and other costs (including trustee profits, sponsor fees, member rebates and other expenses), whether it knows the current monthly expenses of those three components and their respective percentages in the fund expenses concerned in respect of the 41 MPF schemes under the 19 approved trustees; the details of the follow-up actions taken by the authorities on the reform recommendations made in the Report, and the initiatives to be taken next year to lower the fees and charges of the MPF schemes;

(3) whether it knows the total amount of commissions collected by registered MPF intermediaries last year and its percentage in the MPF administration costs;

(4) of the measures in place to prevent approved trustees from regarding expenses irrelevant to their MPF business as administration costs of MPF schemes; whether there is a mechanism to monitor if approved trustees have

misappropriated MPF contributions or administration charges collected for developing other businesses; if there is, of the details of the monitoring mechanism and penalties; if not, the reasons for that;

(5) whether it knows the current asset values and fund expense ratios of the MPF funds managed respectively by the 19 approved trustees; whether it has monitored if approved trustees handle the MPF administration work by themselves or have entrusted the work to subsidiary companies or outsourced it to other companies; if so, of the details and set out the names of the subsidiary companies or outsourced companies concerned;

(6) whether it knows, since the implementation of the "MPF Employee Choice Arrangement", the extent of decrease in MPF fund expenses, and the number of cases in which employees transferred the accrued benefits derived from their own contributions in their accounts to other MPF trustees and schemes selected by them; the number, age and salary range of these employees;

(7) whether it knows the current number of MPF contributors who leave investment decisions to the sole discretion of their approved trustees, their monthly contributions and the total asset values of the MPF funds concerned; and

(8) as the Financial Secretary mentioned in the 2013-2014 Budget that the Mandatory Provident Fund Schemes Authority was preparing proposals regarding the implementation of a cap on MPF fees that would be introduced in case of market failure, whether it has assessed if the current level of MPF fees reflects market failure; if the assessment outcome is in the affirmative, when the authorities intend to introduce the cap on MPF fees?

Reply:

President,

(1) According to the statistics provided by the Mandatory Provident Fund Schemes Authority (MPFA), the relevant information on the contributions received, benefits paid and accrued benefits are set out at Annex 1 and the information on fund expenses are set out at Annex 2.

(2) The "Study of Administrative Costs in the Hong Kong Mandatory Provident Fund System" (Cost Study) published in 2012 shows the result of the independent consultant's analysis of the then average Fund Expense Ratio (FER) of 1.74% that investment management accounts for 0.59%, administration cost 0.75%, and scheme sponsor charge, trustee profit, member rebates and other expenses as a whole 0.4%. The consultant worked out the breakdown of the FER by analysing the aggregate data collected from MPF trustees around the time of the Cost Study. Data about individual trustees' cost structures are not available to MPFA.

Based on the findings of the Cost Study, MPFA has been following up on a number of short, medium and long term measures with a view to reducing the fees of MPF schemes. The progress of these measures is encouraging. Details are as follows:

(a) Offering Low-fee Funds: The MPFA has been urging MPF trustees to make available different types of low-fee funds in each MPF scheme for members to choose from. At present, 40 schemes have at least one low-fee fund (i.e. fund with management fees $\leqq$ 1.0% or FER $\leqq$ 1.3%) invested in equities and/or bonds available to scheme members, while the remaining one scheme is preparing to launch this kind of low-fee fund later this year. As at the end of March 2014, the number of low-fee funds available in the market was 155, accounting for about one third of all MPF funds. MPFA has included a "Low Fee Fund List", a "Fee Comparative Platform" (including information on FER and investment returns) and a "Trustee Service Comparative Platform" on its website to facilitate scheme members in fund selection, and to increase market force.

(b) Consolidating MPF Schemes/Funds: In response to the appeal of MPFA, MPF trustees have been exploring the feasibility of consolidating their MPF schemes/funds. Since November 2012, four funds which were smaller in scale have been terminated and two smaller schemes have been merged with more sizable schemes by the trustees concerned.

(c) Consolidating Personal Accounts: In the third and fourth quarters of 2013, MPFA conducted a campaign to encourage scheme members to consolidate their MPF personal accounts. To better facilitate the consolidation of accounts, MPFA introduced a simple application form in September 2013, allowing scheme members to consolidate multiple personal accounts under different schemes in one go. From September 16, 2013 to March 15, 2014, MPF trustees received 33 400 applications from scheme members for consolidation of personal accounts.

(d) Promoting Automation and Streamlining of Administration Processes: MPFA expects to launch an MPF Payment Settlement System in mid-2014 which enables MPF trustees to transfer scheme members' accrued benefits between each other electronically to reduce the time required for transfer of accrued benefits. In addition, we plan to introduce an Amendment Bill into the Legislative Council in July this year. The Amendment Bill will propose, among other things, simplifying certain statutory procedures and requirements with which MPF trustees have to comply, with a view to further reducing their operational and compliance costs, thus increasing their scope of fee reduction.

At the same time, we are following up with MPFA on some fundamental reforms with a view to achieving more substantial reduction in MPF fees. The details are set out in part (8) of this reply.

(3) Commissions to intermediaries are not charged to MPF funds, but are generally payable by scheme sponsors or promoters. MPFA does not have the relevant figures.

(4) All MPF trustees are subject to stringent requirements set out in the Mandatory Provident Fund Schemes Ordinance (MPFSO). It is a statutory requirement that all MPF schemes keep accurate accounting records and submit the audited financial report to MPFA. Any approved trustee who does not keep proper accounting records, shall be guilty of an offense and shall be liable on conviction to a fine. MPF assets are subject to trust arrangement, and must be separated from the assets of trustees. Any deduction from MPF funds must be made in compliance with the requirements stipulated in the MPFSO. MPFA has set up a professional team to supervise the compliance of trustees.

(5) As at February 28, 2014, the total amount of assets under management of MPF schemes was about $517.4 billion. Data on the overall FER are set out at Annex 2. The FER and net asset value of individual MPF funds can be found at the "Fee Comparative Platform" on the website of MPFA (cplatform.mpfa.org.hk/MPFA/english/index.jsp).

Out of the 15 approved trustees operating MPF schemes, six perform scheme administration themselves, six appoint their group companies as scheme administrators, and the remaining three appoint a third party to perform the duty. Whether scheme administration is done by the trustee concerned or a third party, any fee charged to an MPF fund for the service is included in the FER. The other four approved trustees do not operate any MPF scheme.

(6) From the launch of Employee Choice Arrangement (ECA) in November 2012 up to February 28, 2014, about 120 000 ECA transfer requests have been received by MPF trustees. Since the information submitted by trustees to MPFA under the MPFSO does not include data on individual scheme members, we do not have the requested details.

On MPF fees, from the launch of the ECA up to January 2014, the management fees of 171 funds (or 35% of MPF funds) have been reduced, with the largest reduction of 118 basis points (i.e. 1.18%). The FER also fell from 1.74% at the preceding month of the launch of the ECA (i.e. October 2012) to 1.69% in March 2014. Given the FER is calculated ex post on the basis of financial statements of last financial year, the FER has not fully reflected the effect of reduction in management fees.

(7) The current MPF system is designed such that if a scheme member does not make an investment choice, the MPF trustee concerned will invest the relevant contributions in the default fund of an individual scheme. Since the information submitted by trustees to MPFA under the MPFSO does not include data on individual scheme members, we do not have the requested details. A recent MPFA survey suggests that around 24% of scheme members have not made an investment choice.

(8) Over the past few years, MPFA has launched various measures to drive down MPF fees, promote market competition and enhance the transparency of MPF schemes. Such measures, including introducing the FER and Low Fee Fund List, implementing the ECA and encouraging personal account consolidation, have achieved good results. The FER dropped from 2.1% in 2007 to 1.69% in March 2014, representing a reduction of some 20%.

Together with MPFA, we are following up on some fundamental reform measures with a view to causing more substantial reduction in MPF fees. They include –

(a) Enhancing the default arrangements under the MPF system: the current thinking is that each MPF scheme will have to make available a default/core fund that complies with specified requirements. Investment of the fund will be regulated, such as a mandatory requirement to make long-term diversified investment in order to balance investment risk and return; and the fund will be subject to fee control. We expect the fund to be a low-fee option with investment consistent with the concept of retirement protection, for scheme members who have not made a choice of fund. In addition, the fund can be a benchmark for the market, thereby increasing competition. We and MPFA plan to consult the public on the relevant proposal later this year.

(b) Full Portability: MPFA is studying various options to implement Full Portability of MPF benefits to further increase scheme members' autonomy in choosing MPF funds and promoting market competition. MPFA aims to submit a proposal to the Government by the end of 2015.

Ends