Press Release

LCQ6: Mandatory Provident Fund Scheme

Wednesday, February 3, 2016

Following is a question by the Hon Paul Tse and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (February 3):

Question:

In September 2014, an academic said that the approved trustees and fund managers of the Mandatory Provident Fund (MPF) schemes had at least collected more than 70 billion dollars of fees in total in the past 13 years, and such fees had not yet included the fund transaction costs. The academic also pointed out that even though the Government had implemented the "semi-portability" (i.e. "the Employee Choice Arrangement"), the average MPF charging rate was still close to 1.7%, gnawing nearly 10 billion dollars of MPF contributions in a year. Recently, there have been comments that MPF is of no use at all to the low-income people who are most likely to fall into the social welfare safety net after retirement, and that "one is better off without MPF Scheme as it yields low return, offers zero protection against risks and is worse than a cosmetic scheme". Meanwhile, there has all along been some members of the public questioning if the function of MPF has changed from assisting employees in "accumulating retirement savings" to safeguarding the incomes of trustees and fund managers, and thus calling for the abolition of MPF Scheme. In this connection, will the Government inform this Council:

(1) whether it knows the total amount of fees received by trustees and fund managers from the MPF contributions in the past 15 odd years since MFP came into operation in December 2000;

(2) given that for years, employees have been forced to make MPF contributions but their contributions have been substantially gnawed by trustees and fund managers, whether the Government has assessed if such situation contradicts the objective of MPF Scheme in assisting employees in accumulating retirement savings; and

(3) given that both the Tracker Fund and MPF, which were set up in 1999 and

2000, have achieved a rate of return of 2.7%, but the average expense ratio of the Tracker Fund is only 0.1%, which is much lower than MPF's average expense ratio of 1.69%, and as the Tracker Fund distributes investment income twice per year and its dividend yield has reached 4.08% since its listing, it can play a more effective role in accumulating retirement savings when compared with MPF which does not distribute any dividends, thus highlighting the drawbacks of MPF which are high costs and low profits, whether the Government will, in light of the unreasonably high fees and low effectiveness of MPF Scheme, consider abolishing MPF Scheme so as to alleviate public grievances?

Reply:

President,

(1) The Mandatory Provident Fund (MPF) System is a privately managed retirement system. Major service providers in the System are approved trustees, custodians, scheme administrators and investment managers. MPF fees and charges incurred by constituent funds (CFs) are deducted from the assets of the CFs in which the accrued benefits of scheme members are invested. The average Fund Expense Ratio (FER) of all MPF CFs is at a record low of 1.60% at the end of January 2016, representing a 24% decrease from the FER of 2.10% in 2007. The Mandatory Provident Fund Schemes Authority (MPFA) does not have the breakdown of fees for services provided or expenses incurred by the approved trustees and investment managers.

(2) The MPF System, in the form of mandatory private retirement protection schemes, aims to assist the working population in saving for retirement by mandating them and their employers to make contributions during employment, and it works together with the other pillars of retirement protection in Hong Kong in assisting the working population in Hong Kong to save for their retirement.

Before the MPF was implemented, it is estimated that only about one-third of the working population in Hong Kong were covered by any sort of occupational retirement protection schemes. At present, about 2.55 million employees are enrolled in MPF schemes, representing 100% of the employees required by law to join the schemes. This is a very high rate when compared with other countries that have set up mandatory retirement protection systems. In addition, another 210 000 self-employed persons are also scheme members. From the inception of the System on December 1, 2000 to November 30, 2015, a total net amount of $475.20 billion was contributed to the MPF System. As of November 30, 2015, scheme members' contributions together with the income or profits arising from any investments thereof net of fees as well as any losses grew to $589.55 billion of accrued benefits, of which $114.00 billion are investment returns net of fees and charges. Over the 15-year period, the MPF System recorded an annualised return of 3.1% after fees and charges, higher than the 1.8% average yearly inflation rate over the same period. Moreover, the effectiveness of the MPF System for retirement protection is increasingly recognised by the society with the growth of MPF voluntary contributions in recent years from $4.10 billion in 2007 (13% of the total contributions in the same year) to $12.80 billion in 2014 (21% of the total contributions in the same year), representing a 200% increase. The MPF System is evidently fulfilling its role to help the working population save and has also added value to their contributions.

(3) The Tracker Fund of Hong Kong is an index tracking retail fund whereas MPF scheme is not an investment product, but a retirement saving system. It is meaningless to compare them. Other than investment management, service providers of MPF schemes provide a bundle of services which include collecting and allocating employers' contributions, assisting in chasing employers for outstanding contributions, providing statutory reporting to regulators, handling transfers between schemes and fund switches within schemes, and administering how and when withdrawals can be made. It should be recognised that there are costs inevitably associated with administering an individual account retirement savings system like the MPF that are not relevant to retail funds, such as the Tracker Fund of Hong Kong.

In respect of investment performance, the MPF System comprises not a single fund but a range of CFs with different investment objectives. The system-wide return is driven by scheme members' collective choices, and the resulting investment returns across many different asset classes and countries. The asset allocation of the MPF System is, therefore, mixed and varied, unlike that of the Tracker Fund of Hong Kong which focuses on Hong Kong equities only.

In addition, similar to other retirement saving systems, any mandatory contributions paid for and in respect of a scheme member and any investment return derived from the investment of the mandatory contributions in the MPF System are fully and immediately vested in the scheme member as accrued benefits (i.e. accumulated contributions and investment returns). Accrued benefits derived from mandatory contributions must be preserved until a scheme member reaches the retirement age of 65 or satisfies other circumstances specified in the MPF Schemes Ordinance. As such, MPF schemes will not distribute regular investment returns.

The Government and MPFA always accord top priority to protecting and enhancing scheme members' interests. Over the past decade, MPFA has implemented various measures to bring fees down.

We agree that the rate of fee reductions needs to be faster and deeper. We have introduced into the Legislative Council (LegCo) the MPF Schemes (Amendment) Bill 2015 to require approved trustees to provide in each MPF scheme a fee-controlled default investment strategy (DIS), with a fee cap of 0.75% of the net asset value per annum, by the end of 2016. We believe that DIS will facilitate further fee reduction and we are assisting LegCo in scrutinising the Bill so that a fee-controlled DIS can be introduced as soon as possible.

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